

# GOVERNANCE REPORT

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# COMPLIANCE WITH THE CODE

## COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE 2018

**The Company is subject to the principles and provisions of the UK Corporate Governance Code 2018 (the Code), a copy of which is available at [frc.org.uk](http://frc.org.uk).**

**For the year ended 31 December 2021, the Board considers that it has complied in full with the principles and provisions of the Code.**

## COMPOSITION, SUCCESSION AND EVALUATION

The appointment process for our new Non-Executive Chair was led by the Senior Independent Director. Further information on the appointment process can be found on page 80.

Our Board comprises a combination of broad skills, experience and knowledge (see pages 71 to 73 and 75).

We have a clear process when considering appointments to the Board and operate effective succession planning (see pages 80 to 82).

In 2021, we carried out an internal evaluation of the Board, supported by Lintstock (see page 79).

## BOARD LEADERSHIP AND COMPANY PURPOSE

The Board has delivered a heightened degree of oversight and scrutiny throughout 2021 to ensure the long-term sustainable success of the Company in light of the impacts of COVID-19 on our business.

Anita Frew was appointed Chair of the Board in October 2021. Our Governance Report provides examples of our leadership and our Strategic Report sets out how we have engaged with our stakeholders (see pages 61 to 66).

During the year the Board carried out a review of our governance structures to support the Group's sustainability and climate change agenda (see page 38).

## AUDIT, RISK AND INTERNAL CONTROL

We recognise the importance and benefits of ensuring the internal audit function and the external auditors remain independent (see pages 85 and 86).

The Board presents a fair, balanced and understandable (FBU) assessment of the Company's position and its prospects (see page 84).

Our risk and control environment is reviewed by the Audit Committee. The Board considered both emerging and principal risks during the year (see pages 52 and 53).

## DIVISION OF RESPONSIBILITIES

We clearly define the roles of the Chair and the Chief Executive and fully support the separation of the two roles.

The Board believes it operates effectively with the appropriate balance of independent Non-Executive Directors and Executive Directors (see pages 71 to 73).

The Board regularly considers the time commitments of our Directors. Prior Board approval is required for Directors' external appointments to ensure there is no compromise on their time (see page 80).

The quality of information and resources available to the Board has enabled us to operate effectively and efficiently throughout the year.

## REMUNERATION

The Remuneration Committee, comprising only NEDs, is responsible for developing the policy and determining executive and senior management remuneration (see page 87).

At our AGM in May 2021, shareholders approved our new Remuneration Policy, see pages 90 to 94 for a summary, a full copy can be found at [rolls-royce.com](http://rolls-royce.com)

No Director is involved when deciding their own remuneration outcome.

# CHAIR'S INTRODUCTION

Having joined the Board as Chair designate on 1 July, I had the chance to get to know the Company before taking over as Chair on 1 October, undertaking a comprehensive induction process which is detailed on page 74. I joined at a time when the Board was refining its strategic narrative after a challenging year in 2020 and we focused on ensuring we met our commitments to investors at the time of the rights issue.

## Leadership

There were a number of changes on the Board this year. Sir Ian Davis stepped down as Chairman on 30 September having served almost nine years on the Board, almost all of that time as Chairman. Lewis Booth, Sir Frank Chapman and Jasmin Staiblin all stepped down from the Board in May, Lewis and Sir Frank having served slightly extended terms to support us during the COVID-19 pandemic (as explained in last year's annual report) and Jasmin having reached her nine-year term.

Paul Adams and Mike Manley joined the Board during the year. Nick Luff became Chair of the Audit Committee immediately after the announcement of our 2020 results in March and Dame Angela Strank took over as Chair of the Safety, Ethics & Sustainability Committee immediately after the AGM in May. Panos Kakoullis also joined the Board as Chief Financial Officer in May.

Shortly after I took over as Chair, we carried out a Board skills review at the Nominations & Governance Committee and considered Board succession over the next few years. I was delighted to appoint Wendy Mars as a Non-Executive Director and she joined the Board in December.

We have recently announced a number of changes to the Board. As I reported in my Chair's Statement (see page 5), Warren East has informed the Board of his intention to step down as Chief Executive at the end of 2022, after nine years on the Board and almost eight years as Chief Executive.

Irene Dorner has also indicated her intention to step down as a Non-Executive Director, Chair of the Remuneration Committee and an Employee Champion and will not be standing for re-election at the AGM.

I am delighted that Jitesh Gadhia will be joining the Board as a Non-Executive Director from April 2022 and as Chair of our Remuneration Committee from May.

Sir Kevin Smith, now in his seventh year on the Board, has indicated his wish to relinquish his roles, both as Senior Independent Director and as Chair of the Science & Technology Committee. With effect from the conclusion of this year's AGM, George Culmer will be appointed Senior Independent Director and Paul Adams will be appointed Chair of the Science & Technology Committee.

There is a full discussion of these leadership changes in the Nominations & Governance Report on page 80.

## Effectiveness

The Board and Committee evaluation for 2021 showed good progress had been made with implementing the outcomes from the 2020 evaluation in relation to Board succession, delivering on the

commitments made to investors in 2020 and remaining agile as the commercial aviation sector started to recover in the year. However, there is more to do and we are forming an action plan for 2022. Further details on our 2021 effectiveness review are on page 79.

## Culture

The work of our Employee Champions continued this year as they found more opportunities to connect with our people both virtually and in person. I was delighted to find that we have three Directors who take up this role so that we are able to cover the Group comprehensively.

Diversity and inclusion remains an important area of focus for the Group, and I was particularly pleased to see the appointments of Grazia Vittadini as Chief Technology Officer and Sarah Armstrong as Chief People Officer, both of whom joined our Executive Team. With other changes to the Executive Team, this changes the dynamic and brings the gender diversity to 9% (2020: 0%). I am delighted to say that with the Board appointments during the year, our Board gender diversity has also increased and is now 38% (2020: 33%) (see more on our overall diversity on page 50).

You can read more about the work we have overseen on the new ways of working in People and Culture on page 47. This is vital for the delivery of our future ambitions with a lower cost base, so we can be more agile to meet the changing needs of our stakeholders.

## Governance

During the year we carried out a review of the governance structures to support our sustainability and climate change agenda and, as a result, recommended some changes to the executive level environment & sustainability committee. We also made changes to the focus of the Safety, Ethics & Sustainability Committee. In 2022 we will carry out a review of the scope of all our Board committees, with a view to ensuring the focus of those committees is closely aligned to the strategic imperatives for the Group.

## Annual General Meeting

I look forward to engaging with shareholders at the Annual General Meeting on 12 May 2022 which we are planning to hold in the most flexible way possible. I look forward to my first opportunity to meet many of you and to answer any questions that shareholders may have.

## Looking forward

As a Board we recognise the value of having strategic debate in the room, taking tough decisions on priorities and working together to achieve objectives. We have identified a number of top priorities for the Board to focus on over the coming year and I look forward to working with my colleagues on the Board and the Executive Team to execute the strategy and seek excellence in business performance. We will also be focusing on identifying a suitable successor for Warren and ensuring a smooth transition. I know that Warren will continue to lead Rolls-Royce with all the dedication he has shown throughout his tenure.

Anita Frew  
Chair

# CORPORATE GOVERNANCE

## THE BOARD

### THE ROLE OF THE BOARD

The Board is ultimately responsible to shareholders for the direction, management, performance and long-term sustainable success of the Company. It sets the Group's strategy and objectives and oversees and monitors internal controls, risk management, principal risks, governance and viability of the Company. In doing so, the Directors comply with their duties under section 172 of the Companies Act 2006 (see pages 61 to 66).

The Board has established certain principal committees to assist it in fulfilling its oversight responsibilities, providing dedicated focus on particular areas, as set out below. The chair of each committee reports to the Board on the committee's activities after each meeting.

In addition to the Board's principal committees, it has established a sub-committee of Directors who each hold an appropriate level of UK national security clearance for the purpose of receiving and considering, on behalf of the Board, any UK classified information relating to the Group's programmes and activities.

Beverly Goulet, a US national and independent Non-Executive Director, also sits on the board of Rolls-Royce North America Holdings, Inc. to create a link between the Board and the Group's North American governance structure.

### KEY MATTERS RESERVED FOR THE BOARD

The Group's long-term objectives, strategy and risk appetite

Changes to the corporate or capital structure of the Company

The Group's organisation and capability

Annual Report and financial and regulatory announcements

Stakeholder engagement

Significant changes in accounting policies or practices

Overall corporate governance arrangements including Board and committee composition, committee terms of reference, Directors' independence and conflicts of interest

Annual budgets and financial expenditure and commitments above levels set by the Board

Internal controls, governance and risk management frameworks

Overview of speak-up programme and cases reported through the Ethics Line

## THE BOARD COMMITTEES

### NOMINATIONS & GOVERNANCE COMMITTEE



See page 80

### AUDIT COMMITTEE



See page 83

### REMUNERATION COMMITTEE



See page 87

### SAFETY, ETHICS & SUSTAINABILITY COMMITTEE



See page 105

### SCIENCE & TECHNOLOGY COMMITTEE



See page 106

### Roles and responsibilities

The roles of the Chair and Chief Executive are clearly defined and the Board supports the separation of the two roles. The Chair is responsible for the leadership and effectiveness of the Board. The Chief Executive is responsible for the running of the Group's business and leads the Executive Team which comes together to communicate, review and agree on issues and actions of Group-wide significance.

Non-Executive Directors support the Chair and provide objective and constructive challenge to management. The Senior Independent Director (SID) provides a sounding board for the Chair and serves as an intermediary for the Chief Executive, other Directors and shareholders when required.

The Chief Governance Officer makes sure that appropriate and timely information is provided to the Board and its committees and is responsible for advising and supporting the Chair and Board on all governance matters. All Directors have access to the Chief Governance Officer and may take independent professional advice at the Company's expense in conducting their duties.

### Directors' independence

We continue to monitor and note potential conflicts of interest that each Director may have and recommend to the Board whether these should be authorised and if any conditions should be attached to such authorisations. The Directors are regularly reminded of their continuing obligations in relation to conflicts and are required to review and confirm their external interests at least annually. This helps us to consider whether each of them continues to be independent.

Following due consideration, the Board determined that all Non-Executive Directors continued to be independent in both character and judgement. Furthermore, it was determined that the Chair was independent on her appointment.






# BOARD OF DIRECTORS

Position	Board skills and competencies	Key external appointments
 <p><b>ANITA FREW</b> Chair of the Board Chair, Nominations &amp; Governance Committee</p> <p>Appointed to the Board on 1 July 2021 and as Chair on 1 October 2021</p>	<p>Anita brings a wealth of extensive leadership and global experience from two decades of board appointments in industrial manufacturing and financial services companies, both in the UK and internationally. Together with her skills and reputation with investors and government institutions, her broad knowledge of strategic management across a range of sectors is invaluable to the Board and the Group as a whole.</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>— Croda International plc, chair</li> <li>— Prime Minister's Business Council, member</li> </ul> <p><b>Past</b></p> <ul style="list-style-type: none"> <li>— BHP Group plc, non-executive director (2015 to 2021)</li> </ul>
 <p><b>WARREN EAST CBE</b> Chief Executive</p> <p>Appointed to the Board on 1 January 2014 and as Chief Executive on 3 July 2015</p>	<p>Warren is a chartered engineer and has an outstanding record as a chief executive. He has a deep understanding of technology and developing long-term partnerships. He has proven strategic and leadership skills in a global business and a strong record of value creation. Warren harnesses the Company's world-class engineering skills and its proud record of innovation and delivery.</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>— ASML Holdings N.V., member of the supervisory board</li> </ul> <p><b>Past</b></p> <ul style="list-style-type: none"> <li>— ARM Holdings plc, chief executive (2001 to 2013)</li> </ul>
 <p><b>PANOS KAKOULLIS</b> Chief Financial Officer</p> <p>Appointed to the Board on 3 May 2021</p>	<p>Panos has over 30 years' experience working with a wide range of significant multinational corporations in a wide range of sectors, leading audits and advising on M&amp;A transactions and turnarounds. Delivering significant transformation programmes throughout his career at Deloitte, he brings strong leadership and an appetite for innovation, collaboration and simplification.</p>	<p><b>Past</b></p> <ul style="list-style-type: none"> <li>— Deloitte LLP, various partner and leadership roles (1989 to 2019)</li> </ul>
 <p><b>PAUL ADAMS</b> Independent Non-Executive Director</p> <p>Appointed to the Board on 11 March 2021</p>	<p>Paul has extensive industry experience, specifically in engine manufacturing. He has a passion for engineering and has broad, sector-specific operational and safety experience. His industry focus is undoubtedly a great asset to both our Safety, Ethics &amp; Sustainability Committee and our Science &amp; Technology Committee.</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>— Aclara Resources, Inc., board member</li> <li>— OC Oerlikon Corporation AG, Pfäffikon, board member</li> </ul> <p><b>Past</b></p> <ul style="list-style-type: none"> <li>— Aerion Corporation, board member (2018 to 2021)</li> <li>— Precision Castparts, chief operating officer (2016 to 2018)</li> <li>— Pratt &amp; Whitney, various executive roles (1999 to 2016)</li> </ul>
 <p><b>GEORGE CULMER</b> Independent Non-Executive Director</p> <p>Appointed to the Board on 2 January 2020</p>	<p>George has a strong track record as a senior finance professional with significant experience gained in large, international, highly regulated groups and has proven business leadership credentials. With this experience, together with his strengths in change leadership and transformation gained from within complex groups, George makes a significant contribution to the Board.</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>— Aviva plc, chairman</li> </ul> <p><b>Past</b></p> <ul style="list-style-type: none"> <li>— Lloyds Banking Group plc, chief financial officer (2012 to 2019)</li> <li>— RSA Insurance Group plc, group financial officer (2004 to 2012)</li> </ul>
 <p><b>IRENE DÖRNER</b> Independent Non-Executive Director Chair, Remuneration Committee Employee Champion</p> <p>Appointed to the Board on 27 July 2015</p>	<p>Irene draws on considerable risk management and human resources experience as Chair of the Remuneration Committee. As a passionate advocate of diversity and inclusion, Irene has embraced the role of Employee Champion and ensures the views of the workforce are properly reflected in the Board's discussions.</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>— Taylor Wimpey plc, chair</li> <li>— Control Risks Group, chair</li> </ul> <p><b>Past</b></p> <ul style="list-style-type: none"> <li>— AXA SA, director (2016 to 2021)</li> <li>— HSBC, various executive roles (1999 to 2014)</li> </ul>

## BOARD OF DIRECTORS

Position	Board skills and competencies	Key external appointments
 <p><b>LORD JITESH GADHIA</b> Independent Non-Executive Director</p> <p>To be appointed to the Board and a member of the Nominations &amp; Governance and Remuneration Committees on 1 April 2022</p> <p>To be appointed Chair of the Remuneration Committee on 12 May 2022</p>	<p>Jitesh brings a wealth of complex advisory and transactional experience to the Board, having spent nearly 25 years in the banking and private equity sector. He has extensive remuneration experience, earned from both listed companies and UK Government Investments and UK Financial Investments, where he played a key role in compensation discussions about the Government's investments in some of the UK's biggest companies. This, together with his broad industry experience, will be an asset to the Board and the Remuneration Committee.</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>– Taylor Wimpey plc, non-executive director</li> <li>– Compare the Market Limited, non-executive director</li> <li>– Accord Healthcare Limited, non-executive director</li> </ul> <p><b>Past</b></p> <ul style="list-style-type: none"> <li>– UK Government Investments, non-executive director (2014 to 2022)</li> <li>– Blackstone Group, senior managing director (2010 to 2015)</li> </ul>
 <p><b>BEVERLY GOULET</b> Independent Non-Executive Director Rolls-Royce North America Holdings, Inc., board member Employee Champion, North America</p> <p>Appointed to the Board on 3 July 2017</p>	<p>Having spent a considerable amount of her career in the airline industry, Bev brings valuable knowledge and operational experience to the Board. She has significant expertise in finance, treasury, strategy, legal and governance matters. She has the expertise and experience to be able to confidently contribute to decision-making and actively take part in developing and strengthening our businesses.</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>– Atlas Air Worldwide Holdings, Inc., non-executive director</li> <li>– Xenia Hotels &amp; Resorts, Inc., non-executive director</li> </ul> <p><b>Past</b></p> <ul style="list-style-type: none"> <li>– American Airlines, Inc., various executive roles (1993 to 2017)</li> </ul>
 <p><b>LEE HSIEN YANG</b> Independent Non-Executive Director Employee Champion, Asia</p> <p>Appointed to the Board on 1 January 2014</p>	<p>A Singaporean national, Hsien Yang combines a strong background in engineering with extensive international business and management experience in our most important growth markets. Throughout his varied career history, Hsien Yang has gained significant industrial and financial skills which have proved invaluable in his current committee memberships.</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>– Atlas Broadband Satellite Ltd, non-executive board director</li> <li>– INSEAD South East Asia Council, president</li> </ul> <p><b>Past</b></p> <ul style="list-style-type: none"> <li>– Civil Aviation Authority of Singapore, chairman (2009 to 2018)</li> </ul>
 <p><b>NICK LUFF</b> Independent Non-Executive Director Chair, Audit Committee</p> <p>Appointed to the Board on 3 May 2018</p>	<p>Nick is an experienced finance executive having been chief financial officer of a number of listed companies across a variety of industries. He has broad financial skills and a track record of driving business performance. His extensive non-executive and audit committee experience, together with both financial and accounting expertise and a passion for engineering, is crucial in his role as Chair of the Audit Committee and is invaluable to the Board.</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>– RELX plc, chief financial officer</li> </ul> <p><b>Past</b></p> <ul style="list-style-type: none"> <li>– Lloyds Banking Group plc, non-executive director (2013 to 2017)</li> <li>– QuinetiQ Group plc, non-executive director (2004 to 2010)</li> </ul>
 <p><b>MIKE MANLEY</b> Independent Non-Executive Director</p> <p>Appointed to the Board on 1 July 2021</p>	<p>Mike has extensive international experience having led businesses in Europe, Asia and the US. Moreover, his expertise from the automobile industry and insights into electrification and power management will serve as an asset to the Board and the Science &amp; Technology Committee.</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>– AutoNation, Inc., chief executive officer and director</li> </ul> <p><b>Past</b></p> <ul style="list-style-type: none"> <li>– Stellantis N.V., head of Americas (2021)</li> <li>– DaimlerChrysler, various executive roles (2000 to 2021)</li> </ul>
 <p><b>WENDY MARS</b> Independent Non-Executive Director</p> <p>Appointed to the Board on 8 December 2021</p>	<p>Wendy brings insight across hardware, software and services with technological transformation of complex global organisations at her core. Wendy remains connected to both the need to foster innovation in a technology company as well as the implementation challenges. Technology can play a significant role in helping businesses to achieve their sustainability objectives; Wendy will bring this experience to the Board.</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>– Cisco Systems, Inc., president Europe, Middle East, Africa &amp; Russia region (EMEAR)</li> </ul> <p><b>Past</b></p> <ul style="list-style-type: none"> <li>– ThruPoint, Inc., various executive roles (1996 to 2007)</li> </ul>

Position	Board skills and competencies	Key external appointments
 <p><b>SIR KEVIN SMITH</b> Senior Independent Director Chair, Science &amp; Technology Committee</p> <p>Appointed to the Board on 1 November 2015</p>	<p>Sir Kevin has extensive industrial leadership experience and a deep knowledge of global engineering and manufacturing businesses, as well as the aerospace industry. As Chair of the Science &amp; Technology Committee, Sir Kevin has been able to draw on his extensive experience and make a significant contribution to development and growth of key strategies.</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>– L.E.K. Consulting LLC, European advisory board member</li> </ul> <p><b>Past</b></p> <ul style="list-style-type: none"> <li>– Unitas Capital PTE LTD, partner &amp; chairman (2012 to 2015)</li> <li>– GKN plc, group chief executive (2003 to 2011)</li> </ul>
 <p><b>DAME ANGELA STRANK</b> Independent Non-Executive Director Chair, Safety, Ethics &amp; Sustainability Committee</p> <p>Appointed to the Board on 1 May 2020</p>	<p>Dame Angela brings a wealth of corporate experience to the Board as well as a passion for sustainability and corporate ethics, having actively worked in climate research and pioneering women in STEM careers. As Chair of the Safety, Ethics &amp; Sustainability Committee, Dame Angela draws on her experience as a member of three other listed companies' sustainability committees which is invaluable to the Group as it develops its sustainability strategy.</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>– Mondi plc, non-executive director</li> <li>– SSE plc, non-executive director</li> <li>– Severn Trent plc, non-executive director</li> </ul> <p><b>Past</b></p> <ul style="list-style-type: none"> <li>– BP p.l.c., various executive roles (1982 to 2020)</li> </ul>
 <p><b>PAMELA COLES</b> Chief Governance Officer</p> <p>Appointed on 1 October 2014</p>	<p>Pamela is an expert in corporate governance and company law with a pragmatic approach to how the governance team supports the business. Pamela is instrumental in supporting the Chair and the Non-Executive Directors to build strong relationships with the Executive Team and has been able to offer advice and guidance on a wide range of topics.</p>	<p><b>Current</b></p> <ul style="list-style-type: none"> <li>– E-Act, non-executive director</li> </ul>

#### Board committee membership (at 24 February 2022)

	Nominations & Governance	Audit	Remuneration	Safety, Ethics & Sustainability	Science & Technology
Anita Frew					
Paul Adams					
George Culmer					
Irene Dorner					
Beverly Goulet					
Lee Hsien Yang					
Nick Luff					
Mike Manley					
Wendy Mars					
Sir Kevin Smith					
Dame Angela Strank					

- ☒ indicates that the Director is Chair of the Board or Committee.  
☐ indicates that the Director is a member of the Committee.  
☐ indicates that the Director is not a member of the Committee.

### Board induction and development

The Chair and Chief Governance Officer arrange a comprehensive, tailored induction programme for newly-appointed Non-Executive Directors, which includes dedicated time with the Executive Team and senior management and scheduled trips to business operations. The programme is tailored based on experience and background of the individual and the requirements of the role.

All Directors visit the Group's main operating sites as part of their induction and are encouraged to make at least one visit to other sites every year. During 2021, several Directors visited Civil Aerospace in Derby, UK and Defence in Bristol, UK. Site visits are an important part of the induction process as well as for continuing education. They help Directors understand the Group's activities through the direct experience of seeing our facilities and operations and by having discussions with a diverse group of our people.

Anita Frew was appointed to the Board in July 2021 and appointed Chair on 1 October 2021. Since her appointment, she has visited Civil Aerospace and Submarines in Derby, UK, Power Systems and the *mtu* business in Friedrichshafen, Germany, and Defence in Bristol, UK. Anita has also met with institutional investors and key stakeholders. Her induction programme is outlined below.

It is important that the Directors continue to develop and refresh their understanding of the Group's activities. The Board's engagement with its stakeholders is set out on pages 61 to 66. It is also important that the Directors regularly refresh and update their skills and knowledge and receive relevant training when necessary. During 2021, the Directors received tailored training on climate reporting and further training on climate-related matters is planned for 2022. In addition, a number of deep dives on specific topics are scheduled throughout the year, see page 76. Members of the Board also attend relevant seminars, conferences and training events to keep up-to-date on developments in key areas.

## BOARD INDUCTION PROGRAMME FOR ANITA FREW

### Our Board including the Chairman

Regular sessions with the retiring Chairman provided Anita with a good understanding of the Board and its operations prior to her assuming the role of Chair in October 2021.

Anita met with each Director individually and also attended Board and committee meetings, prior to becoming Chair. These interactions enabled Anita to gain an understanding of the dynamics and role of the Board. She continues to meet with the Directors individually on a regular basis.

### Chief Executive, Chief Financial Officer and Chief Governance Officer

Regular sessions with the Chief Executive continue to be held to discuss strategic priorities, key opportunities and risks and any current issues.

Anita meets regularly with the Chief Financial Officer to discuss the Group's financial performance and other finance-related matters.

Meetings with the Chief Governance Officer are continuing on a regular basis to enable Anita to keep up-to-date on corporate governance matters, including the Rolls-Royce framework. These sessions also facilitate discussion on Board arrangements.

### Key stakeholders

During Anita's induction she met with various key stakeholders including our house brokers and key UK Government contacts, including the permanent secretary of the Ministry of Defence; the permanent secretary for the Department for Business, Energy and Industrial Strategy; the CEO of UKGI; and the chief of staff to the UK Prime Minister.

Anita also met with our external auditors and audit partner to discuss the audit report and findings, key financial and non-financial controls, and accounting judgements.

### Our Committees

Sessions were scheduled with each of the committee chairs to provide Anita with an overview of each committee along with an understanding of the current issues for the year and future work plan.

### Our people

Individual one-to-one meetings were held with members of the Executive Team and these will continue in 2022. These sessions provide Anita with an overview of each area of responsibility and current priorities, including: markets and competition; operational and financial performance; functional leadership; employee engagement; culture and diversity; and sustainability.

In addition to meeting with the Executive Team, meetings were held with senior management from a wide variety of functions, particularly those who present to the Board and its Committees. This included: the director of HSE, the government relations team, chief of staff to the Chief Executive and the director of risk & internal audit.

### Tour of our facilities

Within the first three months of Anita's appointment, she received a tour of our key sites including:

- Civil Aerospace facilities including an overview of the new Test Bed 80 and engine assembly site;
- Defence in Bristol, UK, which included a briefing by the Defence team on the sustainability investments and proposed route to net zero;
- Submarines business; and
- Power Systems/*mtu* business in Friedrichshafen.

As COVID-19 travel restrictions are lifted, Anita will continue to visit our global sites during 2022, accompanied by other Directors.

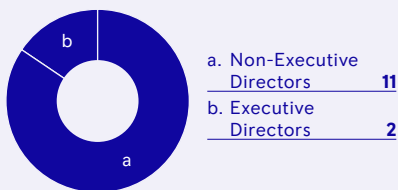


# BOARD COMPOSITION

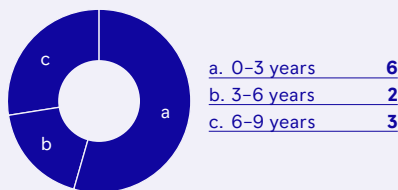
*The Board brings a wide range of experience, skills and backgrounds which complement the Group's strategy.*

## COMPOSITION OF THE BOARD AS AT 24 FEBRUARY 2022

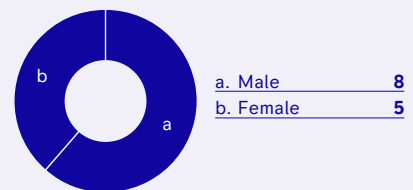
### BALANCE OF THE BOARD



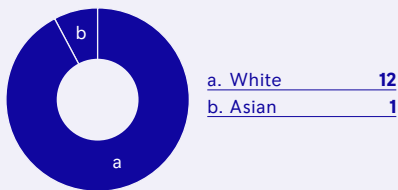
### NON-EXECUTIVE DIRECTORS' TENURE



### BOARD MEMBERS BY GENDER



### BOARD MEMBERS BY ETHNICITY



### BOARD MEMBERS BY NATIONALITY \*



\* According to the Company's Articles, at least 50% of our Directors must be British citizens.

### Non-Executive Directors' skills and experience

Non-Executive Director	Business experience										Global experience		
	Health & Safety	Climate Change & Sustainability	Engineering, Science & Technology	Company Leadership	Finance	Audit & Risk Management	Remuneration	Transformation	Legal & Regulation	Sector Specific	Europe	USA	Asia & Middle East
Anita Frew	■	■	■	■	■	■	■	■	■				
Paul Adams	■	■	■	■						■	■	■	■
George Culmer				■	■	■	■	■	■		■		
Irene Dorner		■		■	■	■	■	■	■		■	■	■
Beverly Goulet					■	■	■	■	■	■		■	
Lee Hsien Yang			■	■	■					■			■
Nick Luff		■		■	■	■		■	■		■	■	
Mike Manley	■		■	■				■			■	■	■
Wendy Mars		■	■					■			■		■
Sir Kevin Smith	■	■	■	■				■		■	■	■	■
Dame Angela Strank	■	■	■				■	■			■	■	■

**Board and Committee attendance in 2021**

	Board 8 scheduled (6 additional)	Nominations & Governance 5 scheduled (1 additional)	Audit 10 scheduled (2 additional)	Remuneration 6 scheduled (3 additional)	Safety, Ethics & Sustainability 3 scheduled (1 additional)	Science & Technology 3 scheduled (1 additional)
Anita Frew (appointed 1 July 2021) <sup>1</sup>	3/4 (1/1)	2/3 (0/0)				
Warren East	8/8 (6/6)					
Panos Kakoullis (appointed 3 May 2021)	5/5 (5/5)					
Paul Adams (appointed 11 March 2021) <sup>2</sup>	5/5 (5/5)	4/4 (0/0)			2/2 (1/1)	2/2 (1/1)
George Culmer <sup>3</sup>	8/8 (5/6)	5/5 (1/1)	10/10 (2/2)	4/4 (2/2)	1/1 (0/0)	
Irene Dorner	5/8 (4/6)	4/5 (1/1)		6/6 (3/3)	2/3 (0/1)	
Beverly Goulet	7/8 (6/6)	5/5 (1/1)	10/10 (2/2)	6/6 (3/3)		
Lee Hsien Yang	8/8 (6/6)	5/5 (1/1)	10/10 (2/2)		3/3 (1/1)	
Nick Luff <sup>4</sup>	8/8 (6/6)	5/5 (1/1)	10/10 (2/2)			
Mike Manley (appointed 1 July 2021) <sup>5</sup>	4/4 (1/1)	3/3 (0/0)				1/1 (1/1)
Wendy Mars (appointed 8 Dec 2021) <sup>6</sup>	1/1 (0/0)	0/0 (0/0)				
Sir Kevin Smith	8/8 (6/6)	5/5 (1/1)		5/6 (3/3)		3/3 (1/1)
Dame Angela Strank <sup>7</sup>	8/8 (5/6)	5/5 (1/1)			3/3 (1/1)	3/3 (1/1)
<b>Past Directors</b>						
Sir Ian Davis <sup>8</sup>	6/6 (6/6)	3/3 (1/1)				
Stephen Daintith <sup>8</sup>	3/3 (0/0)					
Lewis Booth <sup>8</sup>	4/4 (2/2)	2/2 (1/1)	6/6 (0/0)	2/2 (1/1)		
Sir Frank Chapman <sup>8</sup>	4/4 (2/2)	1/2 (1/1)			1/1 (0/0)	2/2 (0/0)
Jasmin Staiblin <sup>8</sup>	4/4 (2/2)	1/2 (1/1)				2/2 (0/0)

Figures in brackets indicate attendance at an additional meeting.

<sup>1</sup> Anita Frew, appointed to the Board and the Nominations & Governance Committee in July, appointed Chair of both in October.

<sup>2</sup> Paul Adams, appointed to the Board and the Nominations & Governance, Safety, Ethics & Sustainability and Science & Technology Committees in March.

<sup>3</sup> George Culmer, appointed to the Remuneration Committee and stepped down from the Safety, Ethics & Sustainability Committee in March.

<sup>4</sup> Nick Luff, resumed Chair of the Audit Committee in March.

<sup>5</sup> Mike Manley, appointed to the Board and the Nominations & Governance and Science & Technology Committees in July.

<sup>6</sup> Wendy Mars, appointed to the Board and the Nominations & Governance Committee in December.

<sup>7</sup> Dame Angela Strank, appointed Chair of the Safety, Ethics & Sustainability Committee in May.

<sup>8</sup> Sir Ian Davis and Stephen Daintith stepped down from the Board on 30 September 2021 and 19 March 2021 respectively. Lewis Booth, Sir Frank Chapman and Jasmin Staiblin stepped down from the Board on 13 May 2021.

The table above sets out the Directors' attendance at Board and committee meetings throughout 2021, both scheduled and additional. Most scheduled meetings end with a private discussion of the Non-Executive Directors led by the Chair of the Board or Committee, without the Executive Directors or members of the Executive Team or management present.

During 2021, we made changes to the committees' memberships. These changes are detailed in the individual committee reports which form part of this Governance Report.

**Additional meetings and sub-committee meetings**

The Board held six additional meetings in 2021, for the approval of appointments to the Board and to consider further the strategic narrative and the Executive Team's recommendations for revised capital allocation plans. The Nominations & Governance Committee held one extra meeting to consider and recommend to the Board the appointment of Panos Kakoullis as Chief Financial Officer. The Audit Committee held two additional meetings in July as part of its preparations for the interim results. Three extra meetings of the Remuneration Committee were held during the year to consider incentive targets and ranges for 2021 and long-term metrics for 2022 to 2023. One additional meeting of the Safety, Ethics & Sustainability Committee was held to ensure there was sufficient agenda time for sustainability and climate-related issues. The Science & Technology

Committee also held one extra additional meeting during the year to review the Group's engineering capabilities, skills and deployment to ensure alignment with the strategic narrative.

In addition to the meetings set out above, the Board delegated certain matters relating to the UK Export Finance facility to a sub-committee. In addition, a sub-committee of the Board has been convened to explore specific strategic matters. This sub-committee reports regularly to the Board on its activities.

In support of the committees' work, where there is a requirement for greater, in-depth discussion, we hold deep dives into specific areas of focus outside the meeting schedule. In February 2021, the Audit Committee reviewed in detail the Civil Aerospace balance sheet. The Safety, Ethics & Sustainability Committee held two deep dives related to product safety while the Science & Technology Committee held three deep dives to focus specifically on developing technologies including the SMR programme.

**Non-attendance**

Board members' attendance was once again high in 2021. However, Directors are sometimes unable to participate in certain Board and Committee meetings due to other business commitments. In this situation, they communicate their responses to the matters for consideration via the Chair of the Board and the committees' chairs, where relevant.

# BOARD FOCUS THROUGH 2021

AREA OF FOCUS	KEY MATTERS CONSIDERED	OUTCOME
<b>Strategy</b>	Leading the transition to net zero	Our purpose, vision and mission provide an overall framework within which sits the Group's strategic focus for the next several years. The framework contains six priorities: to secure a sustainable future, customers, efficiency, people, finances and strategy. Our overall theme for 2022 is to secure a sustainable future for our business, not just in terms of making progress on our continued journey towards net zero but making significant strides towards meeting our mid-term ambition of creating a better quality and more balanced business. Further information can be found on page 12.
	Review of the business	In light of the impact of the COVID-19 pandemic on the Group during 2020 and 2021, the Board regularly discussed the appropriateness of the Group's strategy. The Board held meetings with the Executive Team, focused on Civil Aerospace and strategy and the transition to technologies that support our decarbonisation strategy.  Our ongoing focus remains on areas within our control – cost reduction, liquidity and operational improvement. We reported in our half-year results that we delivered a significant improvement in first half profit and cash flow while continuing to invest in new products, including new low carbon technology and solutions to decarbonise our end-markets. Both our fundamental restructuring programme and our disposal programme have been largely completed.
	Investments and disposals	During 2021, the Board discussed and agreed the following disposals in line with our 2020 commitments: the sale of ITP Aero to Bain Capital Private Equity; the disposal of a minority stake in Airtanker Holdings to Equitix Investment Management; the disposal of Civil Nuclear Instrumentation & Control to Framatome; and the sale of Bergen Engines to Langley Holdings (see pages 180 and 181). In 2021, we invested in the SMR programme, recognising its importance as a key enabler of meeting our strategic objectives (see page 63).
<b>Group purpose</b>	Corporate narrative	During the year, the Board reviewed and discussed the Group's strategic direction to ensure the Group maximises the full benefit of the Civil Aerospace restructure, together with the value from the installed product base and existing assets. Focus remained on tilting the balance of capital and resource allocation, broadening the scope beyond Civil Aerospace to enable the Group to play a leading role in the transition to net zero.
<b>Culture</b>	New ways of working	During the year, new ways of working were introduced to support our people during and beyond the COVID-19 pandemic.  Our Employee Champions discussed the new ways of working with the Board, having received feedback from employees. The Board was also updated by the Employee Champions on their activities during 2021 and on their plans for 2022.
	Board visit to Bristol and Derby	During September, as well as meeting with the employee resource groups, Board members participated in several engagement activities in both Derby and Bristol UK, engaging with small groups of high potential employees. They also met with the business leadership teams and toured our manufacturing and service operations. These site visits provide the Board with an opportunity to monitor and assess the culture across the organisation. Further information on the Board's visit to Derby and Bristol UK can be found on page 62 of our s172 statement.
	Ethics and training	Our people and culture are vital to our long-term success and during 2021 the Nominations & Governance Committee approved a refresh of the Group Policy Manual which supports Our Code of Conduct. This provides the structure for our annual mandatory training programme which supports our employees' understanding of our core policies and principles and is now well embedded into the ways of working at Rolls-Royce. The Safety, Ethics & Sustainability Committee received an update on the 2021 programme.
	Speak up programme	During the year, the Board received regular updates on the speak up programme with statistics by business relating to the total population of formal speak up cases received through the Ethics Line (the Company's externally provided speak up channel), the local ethics advisers and the ethics and compliance team. The Board also received reviews of the red flag speak up cases the Group received during 2021.
<b>Risk</b>	Review of risk appetite and principal risks	During the year, the Board completed a review of the principal risks and how we manage them. The principal risks are set out on pages 52 to 57. In addition, the Board reviewed and approved the effectiveness of the Group's risk management system, following an update from the Audit Committee. For more information on our approach to emerging risks (see page 53).  The Board considered principal risks in relation to the base case and downside case over a five-year period. Further information on our financial and risk reporting against the TCFD requirements and to quantify our scenarios around climate change risk can be found on pages 36 to 43.

AREA OF FOCUS	KEY MATTERS CONSIDERED	OUTCOME
<b>Operational performance/ challenges</b>	Civil Aerospace, Defence, Power Systems and New Markets	Executive reports are received covering all businesses at each meeting, which include targets against key operational metrics. During 2021, the Board also focused on the developments in its New Markets, including the SMR programme and Rolls-Royce Electrical. For further information on the performance of each business, see pages 26 to 33.
<b>Financial performance</b>	Balance sheet review	In line with our 2020 commitment to rebuild our balance sheet, we have announced several disposals to generate around £2bn of proceeds and retained cash that will be used to strengthen our financial position. We remain focused on reducing our net debt and aim to return to an investment grade credit profile in the medium term.
	Payments to shareholders	As previously reported, some of our loan facilities place restrictions and conditions on payments to shareholders. In 2021, as a result of these restrictions, the Board was not able to recommend shareholder payments. However, the Board may recommend shareholder payments from 2023, subject to satisfaction of the conditions and our consideration of progress made to strengthen the balance sheet. We aim to be able to recommend shareholder payments in the medium term.
	Capital allocation	<p>The Board continued to review the primary capital allocation priority, to strengthen the Group's balance sheet. The Board recognises the importance of a strong balance sheet due to the Group's long-term customer relationships and the cyclical nature of civil aviation and remains committed to its ambition of an investment grade credit profile in the medium term and a return to a net cash position. Over the past two years, and even prior to COVID-19, we have been on a continuous journey to optimise and rebalance our capital allocation further away from Civil Aerospace and to fund new opportunities in Power Systems, Defence and New Markets.</p> <p>During the year, the Board reviewed the capital re-allocation and determined the rate and scale of the shift of capital allocation from Civil Aerospace to Power Systems and our New Markets businesses to deliver the Group's strategic objectives.</p>
	Annual target setting	During the year, the Board approved the budget for 2022 and considered the five-year plan and climate-related targets.
<b>Governance</b>	Stakeholder engagement and governance	Details on the Board and Executive Team's engagement with stakeholders can be found within the section 172 statement on pages 61 to 66. The Board also reviewed investor commentary following our full and half-year financial results. In addition, the Board received feedback from the Employee Champions, reports from the Ethics Line, payment practices for the Group's subsidiaries, gender pay gap reporting and the Group's modern slavery statement.
	Non-financial controls	The Board considered the framework and concluded it remained appropriate. This articulates our freedom within a framework culture.
<b>Succession and leadership</b>	Succession planning	During the course of the year, the Board considered the principal risk relating to talent and capability and reviewed succession at the most senior levels of the business (see page 80). Sir Ian Davis stepped down as Chairman on 30 September having served almost nine years on the Board, almost all of that time as Chairman. A sub-committee of the Nominations & Governance Committee led by the SID was charged with identifying and appointing a successor. The Board appointed our new Chair, Anita Frew, during 2021. Further information on Anita's appointment can be found on page 80 and Anita's induction programme can be found on page 74.
	Effectiveness of the Board	The Board carried out a questionnaire-based internal review of the Board's effectiveness, supported by Lintstock. Having undertaken three externally facilitated board effectiveness reviews in 2018, 2019 and 2020 the Board decided, with Anita in place as the new Chair with effect from 1 October, that it would be appropriate to carry out an internal review to set a new baseline. The internal review continued to focus on the themes highlighted in previous reviews: Board composition and dynamics, the Board's role; and, the Board at work, with particular focus on those areas highlighted in the 2020 review. Further information can be found on page 79.

# BOARD EFFECTIVENESS

## Review of Board and Committees

This year we decided to carry out an internal review of our Board's effectiveness, supported by Lintstock which provided the platform and some input for the basis of our questionnaire-based approach. Having undertaken three externally facilitated board effectiveness reviews in 2018, 2019 and 2020 we decided, with Anita in place as the new Chair with effect from 1 October, that it would be appropriate to carry out an internal review to set a new baseline. We continued to focus on the themes highlighted in our previous reviews: Board composition and dynamics; the Board's role; and the Board at work, with specific focus on those areas highlighted in the 2020 review. We particularly asked the Board to take a forward-looking view to assist the Chair in her first full year. The effectiveness of each of the Board's committees was taken into account as part of the evaluation and the output will assist the Nominations & Governance Committee in its thinking as it develops and re-shapes the Board Committees in early 2022.

Two providers were approached and Lintstock was selected following discussions with the governance team. We have not worked with Lintstock before and they have no other connection with the Company or its Directors.

The review took the form of an online questionnaire, designed with assistance from Lintstock, with input from the Chair and the governance

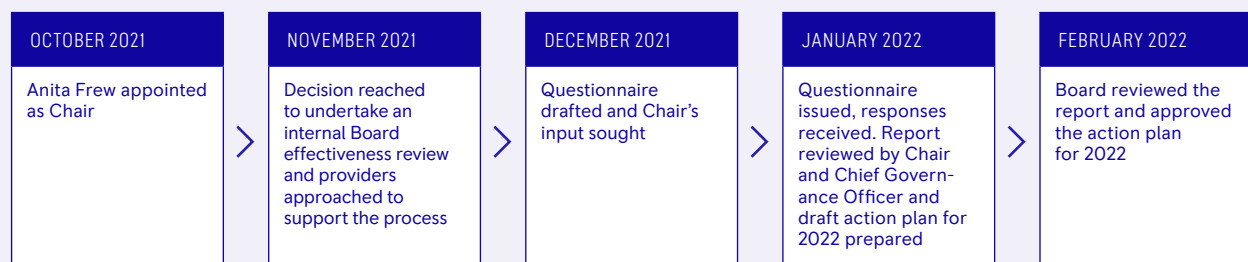
team. Lintstock provided an anonymised report and the Chair and Chief Governance Officer, in discussion with the Board, have agreed an action plan for 2022.

In addition to this review, during a private meeting of the Non-Executive Directors, the Senior Independent Director led an initial review of the Chair's performance without the Chair present, recognising that she had only been in role for a short time. They also discussed and agreed her objectives for 2022. The Nominations & Governance Committee also met without any management present to discuss the performance of the Chief Executive. Constructive feedback was shared with Warren by the Chair following that meeting.

As part of Anita's induction as Chair, she met each of the Directors individually and her assessment of their skills and their overall effectiveness was brought into the discussions of the Nominations & Governance Committee as part of the succession discussions (see page 80). Each Committee chair considers feedback for the Committees for which they are responsible. This year Nick Luff and Dame Angela Strank assumed responsibility for the Audit and Safety, Ethics & Sustainability Committees respectively. Each reviewed the effectiveness and processes to support their Committees and introduced a number of changes for how those Committees operate (see pages 83 and 105).

AREA OF FOCUS	2021 FOCUS IDENTIFIED IN 2020	PROGRESS IN 2021	FOCUS FOR 2022
<b>Board composition and dynamics</b>	Board succession was important as a number of Directors and the Chairman reached or will reach their nine-year terms in 2021 and 2022.	Three new Non-Executive Directors and the Chair were appointed during the year and three long-serving members of the Board stepped down.  Board skills and succession planning reviews were held by the new Chair.	Review of the remit and membership of the Committees.  Continued focus on succession planning, including the diversity, of the Board and Executive Team.
<b>The Board's role</b>	To ensure delivery on the commitments made to investors as part of the rights issue in 2020.	A number of commitments were met including headcount reductions and £2bn of disposals.	Execution of strategy, prioritising investments and the oversight of cost management.
<b>The Board at work</b>	To remain agile to ensure the Group remains appropriately sized, resourced and placed to take advantage of the recovery in the commercial aviation sector.	Regular updates were received as the sectors in which the Group operates recovered during the course of 2021.	Strengthening relationships with our stakeholders, conscious of the external environment.

## STAGES OF THE BOARD EFFECTIVENESS REVIEW





# NOMINATIONS & GOVERNANCE

## Key areas of focus in 2021

- Chair appointment
- Executive Team succession planning
- Chief Financial Officer appointment
- Culture and behaviour
- Talent & leadership
- Diversity & inclusion

## Key areas of focus for 2022

- Culture and behaviour
- Diversity & inclusion
- Executive Team diversity and succession planning

## Activities and overview of 2021

### Board and committees' composition

The Committee is responsible for keeping the structure, size and composition of the Board and its committees under review.

Prior to making any new appointments to the Board, the Committee considers the skills and attributes required and agrees a profile. The Committee also provides input into a shortlist of candidates and is involved in the interview process for all appointments. The Committee recommends the appointments to the Board for approval. All Non-Executive Directors are appointed to the Nominations & Governance Committee and to other Board committees, depending on the skills they bring. See page 73 for our current Board committee membership.

The Chief Governance Officer ensures that new Directors have a thorough and appropriate induction programme. More detail about inductions and continuing development can be found on page 74.

Furthermore, during the year, the Committee considered the re-appointment terms for the Non-Executive Directors and concluded that in future all Non-Executive Directors would be appointed annually once they have reached their third term.

During the year, the SID led the selection process on behalf of the Committee. I was appointed as Chair designate in July, becoming Chair on 1 October 2021. The process for my appointment was led by a sub-committee of the Nominations & Governance Committee comprising Sir Kevin Smith as SID, Irene Dorner and Nick Luff, supported by the Chief Governance Officer. Three candidates were shortlisted and met with the sub-committee as well as the Chief Executive. MWM Consulting were formally appointed to carry out the search. They have signed up to the voluntary code of conduct for executive search firms and had no other connection to the Company or its Directors during the year.

As I reported in my Chair's Statement (see page 5), Warren East has informed the Board of his intention to step down as Chief Executive at the end of 2022, after nine years on the Board and almost eight years as Chief Executive. As a result, the Committee will now launch a thorough and extensive search for his successor.

The Committee has also considered the following changes to the Board and its committees during 2021 and up to the date of this report.

Paul Adams was appointed to the Board as a Non-Executive Director in March 2021. He brings many years of sector experience, specifically in engine manufacturing, and a real passion for engineering, having spent much of his career at Pratt & Whitney. On appointment, Paul joined the Safety, Ethics & Sustainability and Science & Technology Committees.

In March, following the release of our 2020 results, Nick Luff assumed the role of Chair of the Audit Committee. As reported previously, Lewis Booth had remained as Chair of the Audit Committee to support the Group in light of the COVID-19 pandemic.

Lewis Booth, Sir Frank Chapman and Jasmin Staiblin all stepped down from the Board at the AGM in May. Lewis and Sir Frank had served slightly extended terms to support us during the pandemic and Jasmin had reached her nine-year term. On behalf of my colleagues, I would like to thank all of them for their dedication and tremendous support.

Panos Kakoullis joined the Board as Chief Financial Officer in May, just prior to the AGM. Panos spent his career at Deloitte where he delivered significant transformational change, streamlining and simplifying the business. The Committee considered his expertise and this experience of real benefit as the Group delivered on its fundamental reorganisation and secures a sustainable future. His arrival followed the departure of Stephen Daintith in mid-March and, on behalf of the Board, I would like to thank Ben Fidler for his support, who stepped up as Interim Chief Financial Officer.

Also in May, Dame Angela Strank became Chair of the Safety, Ethics & Sustainability Committee when Sir Frank Chapman stepped down from the Board. Dame Angela took the opportunity to review the focus of the Committee and is dedicating additional agenda time to sustainability and climate-related issues.

In July 2021, Mike Manley joined the Board as a Non-Executive Director. Mike is highly international in both his experience and approach. He has led digitally focused transformation programmes and has good knowledge of electrification and power management. He joined the Science & Technology Committee on appointment.

Wendy Mars joined the Board in December as a Non-Executive Director. She is an experienced global engineering and technology leader who brings expertise in transformation, automation and data from a broad range of businesses. Wendy recognises that technology can play a significant role in helping businesses achieve their sustainability objectives and brings this dimension into our boardroom discussions.

In November 2021, the Committee considered the re-appointment of Sir Kevin for a further year and recommended this to the Board. Sir Kevin was first appointed to the Board on 1 November 2015 for three years and re-appointed for a second three-year term on 1 November 2018. Sir Kevin currently serves as Senior Independent Director and Chair of the Science & Technology Committee, in addition to bringing valuable engineering expertise. Now in his seventh year on the Board, Sir Kevin has indicated his wish to relinquish both his Senior Independent Director and Committee Chair responsibilities.

With effect from the conclusion of this year's AGM, George Culmer will be appointed Senior Independent Director and Paul Adams will be appointed Chair of the Science & Technology Committee. George is an experienced senior independent director and chair with strong links with institutional investors and other stakeholders. Paul brings to the Science & Technology Committee his extensive aerospace and engineering expertise.

As I mentioned in my introduction to the Governance Report (see page 69), Irene Dorner has indicated her intention to step down as a Non-Executive Director and will not be standing for re-election at the AGM. Irene is also Chair of the Remuneration Committee and our Employee Champion.

Jitesh Gadhia will be joining the Board as a Non-Executive Director from April 2022 and will become Chair of the Remuneration Committee at the conclusion of our AGM in May. He is currently a non-executive director and member of the remuneration committee at Taylor Wimpey plc, a non-executive director and chair of the remuneration committee at Compare the Market Limited and a non-executive director at Accord Healthcare Limited. He has extensive remuneration experience, earned from both listed companies and UK Government Investments and UK Financial Investments and a wealth of complex advisory and transactional experience gained from a wide range of industries and partnership structures.

Summary biographies for the Directors can be found on pages 71 to 73. You can read our full biographies at [rolls-royce.com](https://www.rolls-royce.com).

### Directors' conflicts of interest

As required under the Code, any additional external appointments taken up by Directors during the year are considered by the Committee and approved by the Board prior to the Directors accepting such appointments. The Committee considers any conflicts that may arise as a result of any external appointments taken up by the Directors and the Board monitors the extent of those interests and the time commitment required to fulfil them to ensure that effectiveness is not compromised. As part of the Committee's discussions, external appointments are considered against the parameters set by ISS. The Committee has found this to be a useful gauge when discussing whether there is potentially any impact on Directors' time commitments when taking on additional external appointments.

In 2021, the Directors demonstrated a strong commitment to the Company, as shown by their near total attendance at all our meetings, whether scheduled or additional (see page 76). During the year, the Board considered, amongst others, the external appointments of Beverly Goulet to Atlas Air Worldwide Holdings, Inc. as a board member, Dame Angela Strank to Mondi plc as a non-executive director, Mike Manley as chief executive of AutoNation, Inc., and Paul Adams to Aclara Resources Inc, as a board member. The Board concluded that none of the external appointments were considered significant.

### Succession planning

As part of our succession planning, the Committee considers the current skills, experience and tenure of the Directors and assesses future needs against the longer-term strategy of the Group.

The Committee regularly reviews succession planning at Board, Executive Team and senior management levels. The Board considered the principal risk relating to talent and capability. Sharpening our talent management strategy and process has been a priority since 2018 and we have improved succession planning by implementing systematic talent reviews, consistently assessing potential and closely monitoring the successors' development plans and proactively looking at external talent to improve the quality and diversity of our succession plans.

In November, the Committee carried out a Board skills review, facilitated by the Chief Governance Officer, to identify the Board's requirements as the strategy of the Group evolves and as part of general Board planning. The review was carried out prior to confirming further Non-Executive Director appointments to the Board.

The Committee plays a vital role in promoting effective Board and leadership succession, making sure it is fully aligned to the Group's strategy. Following the announcement in 2021 that Sir Ian Davis would step down as Chairman, the Committee was regularly appraised by the SID on progress to identify and appoint a successor. In June 2021, the Committee recommended my appointment to the Board.

### Diversity & inclusion

In 2021, the Committee continued to oversee the development of a diverse pipeline for succession. D&I continues to be an area of focus for the Board and for the Group as a whole. We support and monitor Group activities to increase the percentage of senior management roles held by women and other under-represented groups across the organisation.

The Committee revised the Board diversity policy and intends to maintain a balance so that, as a minimum, 40% of the Directors are women. It is the Board's longer-term ambition to reach gender parity. The Board's intention is that at least one Senior Board member will be a woman and that at least one Board member will be from a non-white ethnic minority background. The policy is available at [rolls-royce.com](https://www.rolls-royce.com). We have always recognised that there may be changes to the Board where we may fall short of our stated aim for periods of time while the Board is refreshed.

As at the date of this report, 38% of the Directors are women and that includes Anita Frew as Chair. The Parker Review, first published in 2017, made a series of recommendations aimed at improving ethnic diversity on FTSE 100 boards. Our Board currently has one person of colour and we are therefore compliant with the Parker Review recommendations as well as our own policy. The Committee will continue its work to maintain a balance on the Board of individuals representing a wide cross-section of experience, cultural backgrounds and specialisms.

We fully recognise that diversity in our Executive Team needs to be improved and there is a continued focus on improving this through succession planning. Our progress was evidenced in 2021 with the appointments in 2021 of Grazia Vittadini as Chief Technology Officer and Sarah Armstrong as Chief People Officer. The Committee continued to support and monitor Group activities to increase the percentage of women and other under-represented groups in the senior management population (see page 49).

Improving D&I remains a priority and we continue to track progress. We are particularly pleased to note that we have been able to increase female representation globally and the number of females in the ELG has increased year-on-year (see People and Culture on page 46).

More on our progress against our diversity & inclusion targets can be found on page 50.

## Principal risk review

The principal risk of talent and capability was considered throughout 2021. The Board met in full to review talent and capability as development of our leaders is critical to ensuring the right culture and behaviours are embedded across the Group and to ensure we maintain the right skills and capability for future growth.

## Corporate governance

We strive to take an innovative approach in all that we do and that includes our approach to governance. We have always promoted good governance at Board level and, as we continued to address the challenges presented by the COVID-19 pandemic, we found that our governance was indeed appropriate at a time of crisis and needed no further change. Throughout 2021 we have continued to keep up-to-date through ensuring agendas were reflective of the current issues and information provided to the Board was always current and timely. It was encouraging that our approach to governance, when tested, was able to evolve and adapt as we remained flexible in a changing and uncertain external environment.

We have kept under review the enhancements put in place in 2018 to ensure we meet both the regulation and the spirit of the revised Code and are following with great interest the proposals put forward in the UK BEIS consultation on restoring trust in audit and corporate governance. The extracts from the Group's governance framework, which is also applied to our subsidiary companies and is our response to the Wates principles, are available at [rolls-royce.com](https://www.rolls-royce.com).

## Climate change

In September, the Committee reviewed the Group's governance of ESG, including published targets. In December, the Committee also received a briefing on the Directors' responsibilities for climate risks and regulation and further training is planned for 2022.

## Engagement with shareholders

As part of my induction, I have met with various stakeholders. For further information on my induction, see page 74 and for information on how the Board has engaged with stakeholders during the year, see page 61.

## Role of the Committee

The Committee ensures that the composition of the Board is appropriate and relevant so that the Board is in the best position to oversee operational performance and to drive the Group's strategy. The Committee also keeps the Group's corporate governance arrangements under review.

The Committee's responsibilities are outlined in its terms of reference, available at [rolls-royce.com](https://www.rolls-royce.com). We review these annually and refer them to the Board for approval. During 2021, we updated our terms of reference to broaden our remit to include our responsibility to review and consider climate change topics and risk, as appropriate to the overall remit of the Committee as delegated by the Board.

## Membership of the Committee

All members of the Committee are independent Non-Executive Directors. Our biographies are on pages 71 to 73 and meeting attendance is on page 76. No Director attends discussions relating to their own appointment. In addition to the members of the Committee, the Chief Executive and Chief Financial Officer attend when it is considered appropriate.

### Anita Frew

Chair of the Nominations & Governance Committee

# AUDIT

## Key areas of focus in 2021

- Continuing impact of COVID-19 on accounting assumptions and judgements
- Risk management and internal control environment, specifically in relation to the impacts of COVID-19 and agile working
- Developments with the audit reforms in the UK
- Changes to the internal control framework influenced by the UK BEIS consultation on audit and governance reform
- Impact of climate change on accounting assumptions and consideration of TCFD recommendations

## Key areas of focus for 2022

- Approach to TCFD framework and impact of climate change on accounting assumptions and reporting
- Business transformation programme, including simplification and progress on internal controls
- Oversight of effectiveness of risk mitigation in routine processes and decision making

I am pleased to present the 2021 report of the Audit Committee which describes how the Committee has carried out its responsibilities during the year. I assumed the role as Chair of the Audit Committee from March 2021 when Lewis Booth stepped down. On behalf of the Committee, I would like to thank Lewis for many years of excellent stewardship of the Audit Committee. The Committee has played an active role in supporting Panos Kakoullis in his new role as Chief Financial Officer, having joined the Group in May 2021.

Although it was not possible for us to meet with our shareholders in person at our 2021 AGM, we were able to answer questions during the live stream of the meeting. We are hopeful that we will be able to meet in person at our 2022 AGM, where we will be able to answer any questions regarding this report.

This report sets out the work of the Committee in 2021. It has been another busy year for the Committee as we continued to focus on the issues relevant to the Group's financial reporting, considering key accounting judgements and ensuring ongoing quality of the related disclosures. We have ensured, as the commitments the Group made in 2020 are delivered, that the appropriate judgements and assessments are made, particularly in relation to the disposal programme. In our meetings, we have robust conversations to ensure management are challenged to satisfy ourselves that the judgements taken and the disclosures made are appropriate for the Group.

We have supported the Board in its considerations of climate change risk and opportunity and, together with the Safety, Ethics & Sustainability Committee, we have overseen the reporting against the TCFD recommendations. We also reviewed the impact of the Group's climate strategy on the 2021 financial statements including the assumptions used in the forecasts for the assessment of going concern and viability, long-term contract accounting, impairment testing and deferred tax asset recognition.

The Committee undertook deep dives of the principal risks it oversees, particularly in terms of embedding the lessons learned from COVID-19 in relation to business continuity. The Committee continued to receive regular reports from internal audit and approved the 2022 plan, challenging management to ensure there was sufficient focus to support the business transformation programme.

The Committee received a briefing on the UK BEIS consultation on 'restoring trust in audit and corporate governance' from the Chief Governance Officer and reviewed the Company's response. We have continued to regularly monitor the Group's internal control framework and its effectiveness across the business throughout 2021 with the appropriate lens so that any final recommendations by BEIS are incorporated in our processes.

During the year, the Committee received individual business presentations focused primarily on business governance, including risk management and internal control systems. Each business has its own risk and audit committee and members of the Committee are invited to attend their meetings to both observe and challenge management.

## Membership of the Committee

In addition to myself, members of the Committee during 2021 were George Culmer, Beverly Goulet and Lee Hsien Yang, all Independent Non-Executive Directors. Lewis Booth was also a member of the Committee until he stepped down from the Board at the AGM in May 2021. For the purposes of the Code and DTR 7.1, George Culmer, Beverly Goulet and I have recent and relevant financial experience. The Board has confirmed that it believes that the Committee as a whole has competence relevant to the Company's sector. Our biographies are on pages 71 to 73 and our meeting attendance is shown on page 76. In addition to the members of the Committee, the Chair, Chief Executive, Chief Financial Officer and all Non-Executive Directors may attend meetings at my invitation. The Committee is supported by the General Counsel, the corporate governance director, the group financial controller, the director of risk and internal audit and the external auditors.

## Role of the Committee

The Committee is responsible for recommending to the Board the financial reporting, focusing on accounting policies, judgements and estimates; disclosures; compliance with regulations; and whether the Annual Report is fair, balanced and understandable.

We monitor the effectiveness of the risk management and internal control environment and review concerns of financial fraud. The Business Continuity and Financial Shock principal risks are considered by the Committee while the Cyber principal risk is reviewed by our data security committee.

In addition, the Committee provides oversight in respect of the scope, resources, results and effectiveness of internal audit. We are responsible for the relationship with, and the effectiveness of, the external auditor as well as approving their terms of engagement and fees.

The Committee's responsibilities are outlined in its terms of reference, available at [rolls-royce.com](https://www.rolls-royce.com). We review these annually and refer them to the Board for approval. Changes have been introduced in 2021 to reflect the Committee's role in overseeing the Group's climate change reporting.

### Financial reporting

The Group has complex long-term contract accounting and every year the Committee spends much of its time reviewing the accounting policies and judgements implicit in the Group's financial results. In 2021, in addition to our scheduled workload, we have continued to focus on the assumptions in respect of the recovery of civil aviation from the impacts of COVID-19, in particular the implications of changes in Civil Aerospace engine flying hours (EFHs), and all areas impacted by this. We have also reviewed the accounting judgements associated with the targeted disposals being made to meet the Group's stated

commitments. In addition, during 2021, the Committee considered the impact of the Group's climate strategy on the assumptions and scenarios used by management.

We have ensured that the disclosures in respect of all key areas of judgement are appropriate and balanced. We have continued to provide additional information with regard to the sensitivity of the estimates to changes in key assumptions which are summarised in note 1 of the Consolidated Financial Statements on page 117.

### Significant issues relating to the 2021 financial statements:

A summary of the principal matters we considered in respect of the 2021 Consolidated Financial Statements is set out below.

AREA OF FOCUS	CONSIDERATIONS
<b>Alternative Performance Measures (APMs)</b>	Consistent with previous years, the Committee reviewed the clarity of the definitions and the reconciliation of each APM to its statutory equivalent. The Committee concluded that there was no undue prominence of the APMs in the Annual Report. See page 215 for a reconciliation of APMs to their statutory equivalents.
<b>Long-term contract accounting</b>	The Committee considered the assessment of estimates of future revenue and costs on the Group's complex, long-term contractual arrangements. This has continued to be a particular focus for the Committee due to the impact of COVID-19, in particular on our Civil Aerospace business. As part of our considerations, we reviewed onerous contracts and the carrying value and recoverability of tangible and intangible assets. We reviewed the disclosures and concluded these, together with the assessments, were appropriate. See note 1 in the Consolidated Financial Statements.
<b>Deferred tax assets</b>	The Committee considered the basis for the recognition of the UK deferred tax assets and considered the judgements and estimates necessary to assess the recoverability of the UK deferred tax assets. We confirmed the approach, which remained consistent with that taken in 2020, together with the disclosures set out in note 1 to the Consolidated Financial Statements.
<b>Impact of climate change</b>	The approach taken by management to assess the impact of climate change, the conclusions reached and the disclosures presented have been reviewed by the Committee, including considering the related TCFD recommendations. This included understanding and challenging the assumptions in the climate scenarios used by management to sensitise forecasts in respect of going concern, viability, long-term contract accounting, impairment assessments and deferred tax asset recognition. See note 1 in the Consolidated Financial Statements.
<b>Sales of spare engines</b>	Throughout the year, the Committee kept under review the assessment of whether the sales of spare engines to related entities was at fair value. The Committee challenged management on the approach, the accounting and the reporting of these transactions.  In addition, the Committee asked the external auditors to specifically include within their audit scope a review of the sale of spare engines to related entities. The auditors reported back to the Committee and confirmed that the approach was appropriate. See disclosure set out in note 1 of the Consolidated Financial Statements.
<b>ITP Aero disposal</b>	The Committee reviewed the assessment of ITP Aero to be classified as held for sale and a discontinued operation based on the expected timeline and likelihood of sale (see note 1 to the Consolidated Financial Statements). The Committee also confirmed the judgements taken to conclude that ITP Aero should no longer be reported as an operating segment in the 2021 Annual Report (see note 2 to the Consolidated Financial Statements).  As part of its review, the Committee considered the arrangements between ITP Aero and Civil Aerospace to ensure that these were presented correctly.

### Fair, balanced and understandable

As part of its review of the 2021 Annual Report, the Committee considered whether the report, taken as a whole, was fair, balanced and understandable and that it provided the information necessary for shareholders to assess the Company's position, performance, business model and strategy. In so doing, the Committee considers the processes and controls involved in preparing the report. There

is a robust governance framework to ensure the report is critically reviewed and signed off by key business and function teams. The Committee was satisfied that the process was effective and confirmed to the Board that, when taken as a whole, the Annual Report is fair, balanced and understandable.



### Risk management and the internal control environment

Our risk management and internal control framework is described on page 52. During the year, we focused on the effectiveness of risk mitigation, understanding our appetite for taking many of the risks as described on page 52, including in respect of business continuity activities following consideration of the lessons learned through COVID-19. We will continue to focus on risk mitigation effectiveness and appetite in 2022, embedding these more firmly as part of our routine processes and decision making, including in relation to strategic planning.

We also satisfied ourselves that the processes for identifying and managing risks are appropriate and that all principal risks and mitigating actions had been subject, during the year, to a detailed review by the Board or an appropriate Board Committee. Based on this and on our other activities, including consideration of the work of internal and external audit and attendance at the Committee by business and functional risk owners, we reported to the Board that a robust assessment of the principal risks facing the Group had been undertaken. Details of our principal risks are set out on pages 54 to 57. The Board allocated certain principal risks to the Committee and we considered these in detail throughout the year, as described below. From our discussions, we are satisfied that the principal risks that we oversee have received appropriate management attention during the year:

- Business Continuity: the Committee received updates on the status of the continuity risk management of each business, including the impact of COVID-19 on both our supply chain and operations.
- Cyber: at each meeting of our data security committee, risks as a result of COVID-19 were considered together with lessons learnt from incidents and assessment of risk management effectiveness. The cyber security strategy was kept under review.
- Financial Shock: the Committee has reviewed the Group's policies, procedures and controls for identifying, managing and mitigating financial shock in relation to, for example, financial scenario planning, financial forecasting, hedging of foreign exchange and interest rate exposures and the impacts of COVID-19 on such matters.

### Internal financial control

The Committee specifically reviews the Group's internal financial controls (see page 52). During 2021, we reviewed the results of self-attestation and testing performed by the internal control and internal audit teams to confirm the effective operation of key financial controls across the Group. We monitored progress against the 2021 financial controls programme to strengthen the financial reporting and compliance controls, with a particular focus on foreign exchange reporting and IT access. We confirmed completion of key activities identified as a result. We also considered the external auditor's observations on the financial control environment.

### Effectiveness of risk management and internal control systems

We have conducted a review of the effectiveness of the Group's risk management and internal control systems, including those relating to the financial reporting process. Where opportunities for improvement were identified, action plans have been put in place and progress is monitored by the Committee. We consider that our review of the risk management and internal control systems, in place throughout 2021 and up to the date of this report, satisfies the requirements of the Code, the DTR and the FRC's guidance on risk management.

### Going concern and viability statements

Having regard to the net liabilities of £4,636m on the Group's 2021 balance sheet, we paid particular attention to these assessments. We reviewed the processes and assumptions underlying the statements set out on pages 58 to 60, considering in particular:

- the Group's forecast funding position over the next five years;
- the forecasts for material subsidiaries making up this position;
- an analysis of impacts of severe but plausible risk scenarios, ensuring that these included relevant principal risks;
- the impact of multiple risks occurring simultaneously;
- additional mitigating actions that could be taken in extreme circumstances; and
- the current borrowing facilities in place and the availability of future facilities.

As a result, we are satisfied that the going concern and viability statements have been prepared on an appropriate basis.

### Internal audit

The director of risk and internal audit regularly attends and reports to the Committee on risk and internal audit matters including:

- identifying key trends and headline findings from internal audit reports issued in the period;
- details of any specific significant findings raised by internal audit that warrant the Committee's attention;
- status of agreed actions arising from internal audit work;
- the plan of internal audit work for the following year; and
- progress against the current year's internal audit plan and any changes to the plan.

I meet the director of risk and internal audit regularly throughout the year, as do other members of the Committee, to discuss risk matters and the nature of internal audit findings in more depth. We continue to focus on the nature of issues raised by internal audit and the timescales to complete the related actions. The future work plan is risk-based, including risks to both short and longer-term objectives and balancing focus on principal risk areas and on business-as-usual transactional activity where controls are understood to be mature and established. Internal audit also provides assurance to our restructuring activities and incorporates the activities of our second line assurance functions in their approach. We considered and reviewed the effectiveness of the Group's internal audit function, including resources, plans and performance as well as the function's interaction with management. Based on the reports and discussion, we are satisfied that the scope, extent and effectiveness of internal audit work are appropriate for the Group and that there is an appropriate plan in place to sustain this.

### External audit

PwC were appointed as the Group's external auditor for the financial year commencing on 1 January 2018 following a formal tender process in 2016. The external audit contract will be put out to tender at least every ten years. Ian Chambers is the lead audit partner and has been in post since PwC were appointed; he will be required to rotate after five years. Other key audit partners will also be required to rotate every five years. Any future audit tenders will be carried out in line with the FRC's practice aid for audit committees.

Other than the services detailed below, PwC have no other connection with the Company or its Directors.

### 2021 audit

The Committee reviewed the quality of the external audit throughout the year and considered the performance of PwC. This year, to support this, the Committee members and senior finance personnel have undertaken an internal evaluation, focusing on a range of factors we consider relevant to audit quality. The findings from this evaluation and agreed actions will be reviewed and approved by the Committee in May 2022. Feedback was also received from the auditors on their performance against their own objectives.

Based on these reviews, the Committee concluded that there had been appropriate focus and challenge by PwC on the primary areas of the audit and that they had applied robust challenge and scepticism throughout the audit. Consequently, the Committee has recommended to the Board that they be reappointed at the 2022 AGM.

In November, PwC presented its formal audit plan, which identified its assessment of the key audit risks and the proposed scope of audit work. Reflecting on findings from the half-year review and the developments in the Group, we agreed the approach and scope to be undertaken. Key risks and the audit approach to these risks are discussed in the Independent Auditor's Report (pages 197 to 210), which also highlights the other risks that PwC drew to our attention.

As part of the reporting of the half-year and full-year results, in August 2021 and February 2022, PwC reported to the Committee on its assessment of the Group's judgements and estimates in respect of these risks and the adequacy of the reporting. Where effective to do so, PwC also reported on its assessment of the Group's controls.

I meet with the lead partner regularly throughout the year and the whole Committee has a private meeting with PwC at least once a year.

### Non-audit services

In order to safeguard the auditor's independence and objectivity, and in accordance with the FRC's ethical standard, we do not engage PwC for any non-audit services except where it is work that they must, or are clearly best-suited to, perform. Accordingly, our policy for the engagement of the auditor to undertake non-audit services broadly limit these to audit-related services such as reporting to lenders and grant providers, where there is a requirement by law or regulation to perform the work. All other non-audit services are considered on a case-by-case basis in light of the requirements of the ethical standards and in compliance with our own policy.

Fees paid to PwC are set out in note 7 to the Consolidated Financial Statements on page 146. All proposed services must be pre-approved in accordance with the policy which is reviewed and approved annually. Above defined levels, my approval is also required before PwC is engaged. We also review the non-audit fees charged by PwC on a quarterly basis.

Non-audit related fees paid to the auditor during the year were £1.9m (2020: £2.7m), representing 16% (2020: 26%) of the audit fee. This included £0.7m (2020: £1.0m) relating to the review of the half-year results. Our annual review of the external auditor takes into account the nature and level of all services provided.

During the year, the lead audit partner brought it to our attention that PwC had been involved in a prohibited service, the details of which are set out in the Independent Auditor's Report on pages 197 to 210. The Committee agreed that this activity did not impact the independence of PwC for the purposes of the audit.

Based on our review of the services provided by PwC and discussion with the lead audit partner, we concluded that neither the nature nor the scale of the non-audit services gave any concerns regarding the objectivity or independence of PwC.

### Compliance

During 2021, the Company complied with the relevant provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, as disclosed within the external audit section.

### Nick Luff

Chair of the Audit Committee

# REMUNERATION

## Key areas of focus in 2021

- Implementation of new policy
- Appointment of new remuneration advisers
- Review of base salaries

## Areas of focus for 2022

- Continue to review and carefully monitor the incentive measures and targets to ensure that they remain aligned with performance and strategy, including ongoing consideration of sustainability measures
- Gain further insights into the remuneration of the workforce to further inform decisions on senior management reward

As Chair of the Remuneration Committee, I am pleased to present the Directors' remuneration report for 2021.

This introductory letter outlines the key remuneration decisions made by the Committee in respect of 2021 and the planned implementation of the remuneration policy for 2022. In addition, I have set out the business and key stakeholder context to these decisions.

## Business context for 2021

For 2021 the Group's priority was to restore financial stability in the wake of the pandemic. Our goals were shared with investors in 2020 during the balance sheet recapitalisation and the shareholder consultation on the new executive remuneration policy and included the following financial commitments:

- generate at least £2bn from disposal proceeds to strengthen our financial position;
- return to an investment grade credit profile in the medium-term;
- drive medium-term growth and maximise value from existing capabilities;
- position the business to play a crucial role in the transition towards a net zero carbon economy; and
- restructure our business with reduced headcount globally and a reduction in footprint targeting at least £1.3bn annualised restructuring benefits.

2021 continued to be full of uncertainty given the ongoing and unpredictable impact of the pandemic, however, the management team made significant progress against the key promises made to shareholders. They focused on the elements under their control: returning the company to profit and delivering a restructuring programme ahead of schedule to generate sustainable savings of more than £1.3bn this year; and achieving a net cash inflow in the third quarter and minimising the cash outflow in 2021, which was ahead of previous guidance. There has also been excellent progress with four disposals agreed that together will raise proceeds of around £2bn to strengthen our balance sheet.

Despite the difficult trading conditions and ongoing uncertainty, we have also continued to focus on our journey to net zero, generating funding for our SMR programme and making significant strides in electrical flight and power systems as well as testing our engines in Civil Aerospace and Defence to run on 100% sustainable aviation fuel (SAF). We introduced a sustainability target in our incentive metrics for 2023 based on the sustainability of our products and we are committed to go further in this area as we set targets for future incentives, with increased focus on science-based targets.

The Committee is encouraged by the achievements in 2021 and feels that the remuneration policy has supported this journey and rewarded

the leadership and wider workforce for their enduring commitment to deliver strong results despite the ongoing challenges.

## Remuneration decisions related to 2021

### Implementation of the new policy

As noted in last year's report, as part of the implementation of the new remuneration policy, from 1 June 2021, 30% of Warren's salary and 20% of Panos' salary is deferred into shares for two years. Warren also agreed to a reduction in his pension contributions from 23% to 12% from 1 January 2021, in line with the wider workforce level. Panos also has a pension contribution of 12%.

The new policy comprises a single incentive plan designed to reward the key drivers for success, with deferred share awards made at the end of the performance period. In line with the 2021 policy, no LTIP grants were made in 2021 and there will be no cash bonuses for the Executive Directors at any time between 2021 and 2023. As part of the policy review and recognising the wider stakeholder agenda, the 2021 policy has a reduced maximum incentive plan opportunity.

Key elements of the policy were also cascaded to the wider workforce to ensure alignment across the Group.

I was delighted that we had such strong support (97%) for the new policy at our 2021 AGM and we appreciated the engagement and constructive feedback received from many of our shareholders.

As approved by investors, for 2021 the annual incentive metrics were all annual targets focused on restoring our financial stability. This was discussed in depth with our shareholders as part of the policy consultation and strongly supported by them. Longer-term cumulative measures will form part of the incentive structure in 2022 and 2023.

### Incentive outturn in respect of 2021

The new Rolls-Royce incentive plan was specifically designed to focus on the key challenges in 2021 with the targets all agreed by the Committee at the start of the year.

The Executive Team has delivered on its commitments with improved financial performance, including achievement of a major restructuring of the Civil Aerospace business ahead of schedule. Operating profit for 2021 was above the remuneration target set by the Committee for the year. Free cash flow for 2021 was also above target.

Cost discipline and delivery of the restructuring programme were key to restoring our financial stability and delivered more than £1.3bn of run-rate cost savings by the end of 2021. Achievement of the operating cost metrics was therefore also above the target.

I was pleased to see that on our people score we had a record number of employees take part in our annual Gallup12 survey and saw an

improvement in overall engagement despite the significant disruption and uncertainty. This score was just below the target for the year.

Clearly, these results have been delivered against a difficult employee and stakeholder environment. Our fundamental restructuring has been largely completed with over 9,000 roles from continuing operations being removed; however, the majority of employees who left the business either retired or took voluntary redundancy, minimising compulsory redundancies. For 2021, there will be no shareholder payment; some of our loan facilities place restrictions and conditions on payments to shareholders. From 2023, the Board may recommend shareholder payments, subject to satisfaction of the conditions and our consideration of progress made to strengthen the balance sheet. We aim to be able to recommend shareholder payments in the medium term. We have seen a 20% increase in our share price during 2021 and delivered on the promises that we made to our shareholders.

The Committee gave consideration to the experience of the Group's stakeholders in 2021 when considering the 2021 incentive outturns.

The Committee was mindful of the receipt of UK Government support in the form of furlough (Coronavirus job retention scheme) in the UK and from similar schemes in other countries (such as *kurzarbeit* in Germany and CIGO in Italy), as well as other UK Government support in terms of loans and guarantees. We noted that the Covid Corporate Financing Facility had been repaid and that the new remuneration policy supported by shareholders in May 2021 is fully aligned with executive pay restraint commitments entered into as part of the UK Government-backed loan facility. These commitments preclude any cash bonuses from being paid to the Executive Directors.

During our shareholder consultation, we promised to apply discretion to the formulaic outturns to adjust for items which did not reflect management actions. The 2021 outturns have been adjusted to remove any foreign exchange benefits from contract revaluations, deferral of concession payments driven by customer decisions, and the unbudgeted benefit of government support.

This resulted in an incentive outturn of 139.5% of target for Warren and Panos (79.7% of recently reduced maximum) all of which will be delivered in deferred shares, with 40% to be held for three years and 60% for four years.

The Committee considers that this is a fair outcome, which reflected the good progress made by the management team in 2021 to improve financial stability and the delivery against the challenging commitments made to shareholders. The performance is all the more impressive as the incentive targets were set in early 2021 based on available forecasts at that time. The external environment deteriorated against these assumptions in terms of engine flying hours and more broadly due to the impact of Omicron and global supply issues. The Committee also took into account the fact that the incentive will be delivered fully in shares with long holding periods aligns with the interests of our shareholders. Incentive payments will also be made to all eligible employees across the Group, recognising the significant collective achievements in 2021.

The 2019 LTIP awards, due to vest in March 2022, will lapse as the performance conditions for that plan have not been met.

### **Appointment of new Chief Financial Officer**

Panos Kakoullis was appointed Chief Financial Officer and joined the Board in May 2021. His reward package was set in line with the new remuneration policy, including 20% of his salary being deferred into shares for two years. His pension allowance is aligned with the wider workforce rate. His base salary was set at the same level as his predecessor, reflecting the experience that he brings to the role.

Stephen Daintith resigned as Chief Financial Officer so all outstanding deferred shares and unvested LTIP awards (other than those in a holding period) lapsed.

### **Incentive targets for the three-year period to 2024**

Whilst the Rolls-Royce incentive plan design has been agreed with shareholders for the three-year period of the current policy, the Committee considers it prudent to set three-year targets for the period from 1 January 2022 to 31 December 2024 to ensure that there are long-term incentive targets in place as we move to the next policy period. Consultation with our shareholders will take place before any future policy decisions are determined.

### **Implementation of the remuneration policy in 2022**

#### **Salary review**

The Committee has reviewed the salary levels of the Executive Directors and has concluded to make an award of 2.5% for the Executive Directors from 1 March 2022. This is in line with the annual base pay merit increase that the majority of UK management population will receive in 2022 and reflects the recent progress made in our financial and strategic objectives by the Executive Team. This will be the first increase that Warren has received since September 2017 and his second since being appointed as Chief Executive on 1 January 2016.

#### **Incentive plan operation**

The targets set in respect of the single incentive plan for the three-year policy period are all set out in the remuneration report. There are no changes proposed to the operation of the single incentive plan for 2022.

### **Remuneration Committee advisers**

During the year, the Committee undertook a competitive tender of its advisers, following which Willis Towers Watson (WTW) was appointed to replace Deloitte LLP. The process involved submission of written proposals, followed by shortlisted candidates being interviewed by members of the Committee. The Committee selected and appointed WTW with effect from September 2021. The Committee noted that WTW also provide human capital and benefits services. The Committee is comfortable that these activities do not represent a conflict of interest and that objective and independent advice will be received by the Committee from the dedicated team servicing it at WTW. WTW is a member of the Remuneration Consulting Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

Total fees for advice provided to the Committee during the year by Deloitte were £47,800 (2020: £110,200) and by WTW were £26,200. Fees are based on a time and materials basis. Deloitte also advised the Company on tax, corporate compliance, employee global mobility, assurance, corporate finance and Deloitte MCS Limited provided consulting services. Deloitte also provided personal tax advice to Irene Dorner, Lee Hsien Yang and our former Chairman Sir Ian Davis; they are the auditor for Severn Trent plc and remuneration

consultants to Mondi plc, where Dame Angela Strank serves as a non-executive director; Panos Kakoullis was previously employed by Deloitte; and Stephen Daintith's son is employed by Deloitte. No Directors have a connection to WTW.

### Membership and operation of the Committee

In addition to myself, members of the Committee during 2021 were Lewis Booth, George Culmer, Beverly Goulet and Sir Kevin Smith. George was appointed a member of the Committee and Lewis Booth stepped down as a member at the 2021 AGM. All Committee members are independent Non-Executive Directors. Our biographies are on pages 71 to 73 and our meeting attendance is on page 76. In addition to the members of the Committee, the Chair, Chief Executive, Chief Financial Officer and any of the Non-Executive Directors may attend one or more meetings at the invitation of the Committee Chair. The Committee is supported by the Chief Governance Officer, the Chief People Officer and the people director, performance and reward.

No Executive Director or Executive Team member was present during discussion of his or her own remuneration package and they were not involved in the final approval of the new remuneration policy design.

The Committee's responsibilities are outlined in its terms of reference, available at [rolls-royce.com](https://www.rolls-royce.com). We review these annually and refer them to the Board for approval. In 2021, we updated the terms of reference to ensure that the remuneration policy promotes the long-term sustainable success of the Company.

### Summary

As recently announced, I shall be stepping down from the Board and as Chair of the Remuneration Committee in May and am delighted to hand over to Jitesh Gadhia, who will be joining the Board as a Non-Executive Director on 1 April (see page 80).

The new remuneration policy is working well for us in terms of driving the right performance and behaviours and enabling us to attract and retain talent. I am confident that it will continue to support what we need to achieve over the next few years, and I appreciate the continued encouragement and support of our shareholders.

### Irene Dörner

Chair of the Remuneration Committee

### Principal responsibilities

- Determine the remuneration policy for the Executive Directors and set the remuneration for the Chair, the Executive Directors, the Executive Team and the Chief Governance Officer;
- review workforce remuneration and related policies and the alignment of incentives and rewards with our culture;
- determine the design, conditions and coverage of incentives for senior executives and approve total and individual payments under the plans;
- determine targets for any performance-related pay plans;
- determine the issue and terms of all-employee share plans; and
- oversee any major changes in remuneration.

## REMUNERATION COMMITTEE FOCUS DURING 2021

### AREA OF FOCUS

#### Policy implementation

### MATTERS CONSIDERED

Final consultation with shareholders on proposed policy changes and implementation of policy approved at the 2021 AGM.

### OUTCOME

Following strong support from shareholders at the AGM, the Committee implemented the policy changes for 2021. In summary:

- introducing a new incentive plan designed to reward the key drivers for success across our businesses, with focus on shorter-term metrics in 2021, with additional longer-term metrics in 2022 and 2023;
- a reduction in the maximum incentive level from 200% of target to 175%;
- a deferral of salary into shares (30% for the Chief Executive, 20% for the Chief Financial Officer); and
- an immediate reduction in pension contributions to 12% of salary to align with the wider workforce.

In implementing the policy, the Committee also created alignment with the remuneration of the wider workforce through a cascade of key elements of the policy down through the organisation.

#### Base salaries

Review of base salaries in accordance with the remuneration policy and the broader employee and external context.

The Committee reviewed the salaries of the Executive Directors in the context of increases for the wider workforce and concluded for 2022 to increase salaries by 2.5% in line with the wider workforce. They implemented the salary deferral under the new policy – 30% of the Chief Executive's salary and 20% of the Chief Financial Officer's salary is deferred into shares for two years.

#### Rolls-Royce incentive plan

2021 incentives – review of performance against the 2021 targets.

2022 incentives – Setting targets and ranges for the in-year metrics for the 2022 incentive plan and the long term metrics for the plan from 2022-2024.

The Committee implemented the new incentive plan which replaced the previous annual bonus and LTIP with a blend of short and long-term metrics. The Committee set targets and range for 2021, together with the long-term metrics for 2022 to 2024.

The Committee reviewed the formulaic outturn of the 2021 incentive plan and after exercise of discretion and consideration of the broader stakeholder environment, confirmed a Group outturn of 144.4% of target.



# REMUNERATION AT A GLANCE

This section provides a summary of the remuneration policy (and its implementation) that was approved by a binding shareholder vote at the 2021 AGM (see page 104). The policy is designed to attract, retain and incentivise our leaders within a framework that is aligned to our strategy and the interests of our stakeholders. The full policy can be found at [rolls-royce.com](https://www.rolls-royce.com).

## Summary of our remuneration policy

Fixed pay	Variable pay
Base salary	Rolls-Royce incentive plan
Benefits	80% Group performance
Pension	20% personal performance
	<div> <div>Annual metrics: profit, cash, cost base reduction</div> <div>Long-term metrics in 2022: cumulative cash flow (two-year), net debt reduction Long-term metrics in 2023: cumulative cash, TSR, sustainability</div> <div>Non-financial: people</div> <div>Goals and leadership behaviours</div> </div>
	All awards to be made at the end of the performance period in shares 40% settled after three years and 60% after four years
	<p>Malus and clawback – Incentive awards are subject to malus and clawback provisions where there has been a material misstatement of audited results; serious financial irregularity; material financial downturn or an event causing a material negative impact on the value of the Group; material failure of risk management; a serious breach of Our Code; individual misconduct or actions that materially damage the Group; a breach of or inadequate response to a significant HSE or other environmental issue; and/or materially incorrect calculation of an award. These provisions apply from the start of the performance period to three years after date of grant or the settlement date, if later.</p> <p>Shareholding requirement – Executive Directors are required to work towards holding beneficially-owned shares equivalent in value to a percentage of their salary by retaining at least one half of after-tax shares released from the incentive plan until this requirement is met. For the Chief Executive this requirement is 250% of salary and for other Executive Directors this requirement is 200% of salary. In addition, the lower of their shareholding requirement or their actual shareholding at leaving date (based on shares vesting following the introduction of the 2020 policy) must normally be retained by Executive Directors for 12 months following leaving date and then 50% of that amount for the following 12 months.</p>

## Executive Directors summary policy and implementation table

Base salary	
Purpose and link to strategy	To attract and retain individuals of the right calibre to develop and execute the business strategy.
Key features	Salaries are reviewed, but not necessarily increased, annually. Decisions on salary are informed but not led by reference to companies of a similar size, complexity and international reach. 30% of salary for the Chief Executive and 20% for the Chief Financial Officer is delivered in deferred shares.
Implementation in 2021	No salary increase in line with the wider workforce. From 1 June 2021, 30% of salary for the Chief Executive and 20% for the Chief Financial Officer is deferred into shares for two years.
Planned implementation in 2022	Salary increases of 2.5% for the Chief Executive and Chief Financial Officer are proposed with effect from 1 March 2022 in line with the wider workforce.
Benefits	
Purpose and link to strategy	To attract and retain individuals of the right calibre to develop and execute the business strategy.
Key features	Benefits may include car or car allowance and related costs, financial planning assistance, private medical insurance, life assurance and other appropriate benefits at the discretion of the Committee.
Implementation in 2021	No changes to benefits.
Planned implementation in 2022	No changes to benefits.

**Executive Directors summary policy and implementation table (continued)**

Pension	
<b>Purpose and link to strategy</b>	To attract and retain individuals of the right calibre to develop and execute the business strategy.
<b>Key features</b>	Executive Directors are offered membership of a defined contribution plan. A cash allowance may be payable in lieu of pension contributions. The maximum contribution is 12% of base salary only, in line with the rate offered to the wider UK workforce.
<b>Implementation in 2021</b>	Pension contribution/allowance reduced to 12% in line with the rate for the wider UK workforce.
<b>Planned implementation in 2022</b>	No changes to pension contribution/allowance of 12%.
Rolls-Royce incentive plan	
<b>Purpose and link to strategy</b>	To incentivise the execution of the business strategy, delivery of financial targets and the achievement of personal objectives.
<b>Key features</b>	Maximum opportunity is 385% (220% target) for the Chief Executive and 333% (190% target) for the Chief Financial Officer. Targets are set based on Group financial performance and individual performance and may include both annual and long-term metrics. Non-financial metrics may also be included. All of the incentive is deferred into shares, 40% for three years and 60% for four years. The Committee may apply discretion to any formulaic outturn. The incentive plan is subject to malus and clawback.
<b>Implementation in 2021</b>	An outturn of 139.5% of target for the Chief Executive and the Chief Financial Officer. All deferred into shares, 40% held for three years and 60% for four years.
<b>Planned implementation in 2022</b>	80% of incentive based on Group metrics. For 2022 these are 60% annual targets: <ul style="list-style-type: none"> <li>– cash 20%;</li> <li>– profit 20%;</li> <li>– cost base reduction 10%; and</li> <li>– people 10%.</li> </ul> 40% long-term metrics (targets set in early 2021): <ul style="list-style-type: none"> <li>– cumulative cash 20% (two-year); and</li> <li>– net debt reduction.</li> </ul> 20% of incentive based on personal performance. For 2023, the long-term metrics will include sustainability and TSR.
Shareholding requirement	
<b>Purpose and link to strategy</b>	To ensure alignment between the interests of Executive Directors and shareholders.
<b>Key features</b>	Shareholding requirement of: Chief Executive – 250% Chief Financial Officer – 200%
<b>Implementation in 2021</b>	Shareholdings as a % of salary: Chief Executive – 255% Chief Financial Officer – 15%

## REMUNERATION COMMITTEE REPORT

### Remuneration policy – performance scenarios for 2022

CHIEF EXECUTIVE £000				CHIEF FINANCIAL OFFICER £000			
Minimum	100%		£1,095	Minimum	100%		£792
On-target	34%	66%	£3,222	On-target	38%	62%	£2,117
Maximum	23%	77%	£4,818	Maximum	26%	74%	£3,113

■ Fixed remuneration (including salary, benefits and pension)  
■ Rolls-Royce incentive plan

Minimum – fixed remuneration (salary including salary deferred into shares, pension, benefits), no incentive award.

On-target – fixed remuneration, 57% of maximum incentive award.

Maximum – fixed remuneration, 100% of maximum incentive award.

There is no share price impact as incentive awards are granted following the end of the performance period.

### Alignment with strategy and business performance

Executive Directors' remuneration is strongly linked to strategic performance and in particular the commitments made to shareholders as part of the recapitalisation. The key strategic performance measures that are linked to remuneration are shown below, together with their impact on 2021 incentive outturns.

Underlying profit/(loss) *	Free cash flow *	Operating costs *
£295m	£(1,666m)	£(5,333m)
150% of target incentive	175% of target incentive	126% of target incentive

\* Adjusted underlying numbers (see page 96).

In addition we also measure our people score as part of the incentive which delivered 92% of target incentive (see page 96 for further details).

The overall Group outturn of 144.4% (of target) was after discretion was applied by the Committee (see page 96).

For 2022, we will also be including net debt reduction and cumulative cash flow (two-year) as part of the metrics, based on targets set in early 2021.

### Alignment with shareholders

The policy has been designed to ensure alignment with shareholders through a significant part of the overall reward package being delivered in shares with long holding periods:

- 30% of salary for the Chief Executive and 20% for the Chief Financial Officer is deferred into shares for two years; and
- all incentive awards are delivered in shares, 40% held for three years and 60% for four years. No cash incentive has been awarded for 2021 and this will continue for the life of the policy.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Base salary	30%/20% of salary deferred in to shares for two years					
Benefits						
Rolls-Royce incentive plan		40% of incentive award held for three years				
		60% of incentive award held for four years				

### Alignment with the wider workforce

The Remuneration Committee considers a range of factors when deciding upon the remuneration for Executive Directors, one of which is the alignment with reward practices across the wider workforce. In implementing the new policy, the Committee took the opportunity to ensure a cascade of the policy down the organisation, in particular the incentive design and metrics and the alignment of UK pension contribution rates.

	Base salary	Benefits	Pension	Rolls-Royce incentive plan
Executive Directors	Base salary is typically set with reference to the market and wider workforce considerations. Annual increases are typically in line with or less than the wider employee population.	Benefits are set according to local market practice in country. In many countries voluntary benefits are also offered to all employees.	Pension contributions (or equivalent cash allowances) are set at 12% across the UK workforce.	Incentive Plan linked 80% to business performance and 20% to individual performance. Deferral of all or part of the incentive awards into deferred shares. All incentive awards are delivered in deferred shares for Executive Directors.
Executive Team				
Enterprise Leadership Group				Longer-term metrics in addition to annual metrics in the plan from 2022 onwards.
Management				Incentive Plan linked to both business and personal performance (weighting varies by level).  Same annual metrics as per executive plan.  Some groups may also receive a long-term incentive grant for market or retention purposes.
Wider workforce	In some jurisdictions, base salary levels are subject to negotiation with recognised trade unions and/or are set in line with market requirements. Annual increases are also subject to negotiation.			The majority of employees globally participate in an annual incentive plan, for which the Executive plan metrics and targets are usually applied.

The Company engaged with its workforce on the changes to the Executive Directors' policy in 2021 and provided opportunities to give feedback via existing communication channels.

#### Provision 40, section 41 disclosures

When developing the remuneration policy and considering its implementation for 2021, the Committee was mindful of the Code and considers that the executive remuneration framework appropriately addresses the following factors:

<b>Clarity</b>	We provide open and transparent disclosures regarding our executive remuneration arrangements. We have explained the changes to our proposed remuneration policy in a way that highlights their alignment to both our vision and strategy as well as the provisions of the Code.
<b>Simplicity</b>	Remuneration arrangements for our Senior Leadership and our wider workforce are simple in nature and well understood by both participants and shareholders.
<b>Predictability</b>	Our remuneration policy contains details of maximum opportunity levels for each component of pay, with actual incentive outcomes varying depending on the level of performance achieved against specific measures.
<b>Proportionality, risk, and alignment to culture</b>	<p>The metrics used to measure performance for incentive awards drive behaviours that are closely aligned to our vision and strategy. In particular our variable pay arrangements continue to focus on delivering an unprecedented level of transformation.</p> <p>The Committee considers that our variable pay structure does not encourage inappropriate risk-taking.</p> <p>The incentive structure introduced in 2021 reduces the maximum award and does not include any LTIP grants. All awards are ultimately determined by the Committee after the end of the performance period and this therefore removes the risk of windfall gains.</p> <p>The incentives are subject to the achievement of stretching performance targets, and the Committee's holistic assessment of performance that can result in the application of discretion.</p> <p>The use of holding periods, the payment of fixed salary in shares with holding periods, and our shareholding requirements (including after leaving employment with Rolls-Royce) provide a clear link to the ongoing performance of the business and therefore alignment with shareholders.</p> <p>Malus and clawback provisions also apply to the Rolls-Royce incentive plan.</p>



# REMUNERATION REPORT FOR 2021

## Executive Directors' remuneration

The following pages show how we have applied our remuneration policy during 2021 and disclose all elements of remuneration received by our Executive Directors. Details of remuneration received by our Non-Executive Directors during 2021 can be found on page 103.

### Executive Directors' single figure of remuneration (audited)

	Salary (a) £000		Benefits (b) £000		Incentive plan (c) £000		Long-term incentives (d) £000		Pension (e) £000		Total remuneration £000		Total fixed remuneration £000		Total variable remuneration £000	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
<b>Executive Directors</b>																
Warren East	925	873	16	16	2,896	-	-	-	113	220	3,950	1,110	1,054	1,109	2,896	-
Panos Kakoullis	453	-	11	-	1,200	-	-	-	54	-	1,718	-	518	-	1,200	-
Stephen Daintith (left 19 March 2021)	157	629	4	22	-	-	-	-	18	144	179	795	179	795	-	-

#### a) Salary

The Company provides suitable competitive salaries to attract and retain individuals of the right calibre to develop and execute the business strategy. A 10% reduction in salary and a further 10% deferral was applied from April to December 2020, with the deferral being repaid in December 2020. In 2021, Warren East took five days' unpaid leave, in line with employees in Head Office. Upon resignation, Stephen Daintith received payment for outstanding annual leave. As part of the policy implementation, from June 2021, 30% of Warren East's salary (2021: £165,100) and 20% of Panos Kakoullis' salary (2021: £79,300) is deferred into shares for two years.

The Committee reviewed the salary of Warren East and Panos Kakoullis and agreed to increase salaries by 2.5% which is in line with the wider UK workforce.

Executive Directors	Base salary as at 1 March 2022	Base salary as at 1 March 2021
Warren East	£967,088	£943,500
Panos Kakoullis	£697,000	£680,000

#### b) Benefits (audited)

Benefits are provided to ensure that remuneration packages remain sufficiently competitive to attract and retain individuals of the right calibre to develop and execute the business strategy and to enable them to devote themselves fully to their roles. The taxable value of all benefits paid to Executive Directors shown below.

	Car or car allowance inc. fuel allowance £000		Medical insurance £000		Travel and subsistence £000		Total £000	
	2021	2020	2021	2020	2021	2020	2021	2020
<b>Executive Directors</b>								
Warren East	15	15	1	1	-	-	16	16
Panos Kakoullis	10	-	1	-	-	-	11	-
Stephen Daintith (left 19 March 2021)	4	17	-	2	-	3	4	22

#### c) Rolls-Royce incentive performance outturn (audited)

The Rolls-Royce incentive plan is designed to incentivise the execution of the business strategy, delivery of financial targets, and the achievement of personal objectives. Incentive Awards are made in March following the performance period. All of the incentive is deferred into shares - 40% deferred for three years and 60% for four years - and include the right to receive an amount equal in value to the C Shares issued during the deferral period. The annual maximum for the Chief Executive is 385% of salary and 333% for the other Executive Director(s):

- 80% of the award is based on Group performance; and
- 20% of the award is based on individual performance.

The incentive award for the Chief Financial Officer has been pro-rated from his date of appointment.

The 2020 comparator is the award made under the former annual bonus scheme.

## REMUNERATION COMMITTEE REPORT

The Committee reviewed the 2021 outturn against the performance measures.

### Rolls-Royce incentive plan performance outturn table

	Profit	Cash	Operating cost	People	Total
Weighting	37.5%	37.5%	15.0%	10.0%	100.0%
Base (50%)	£27m	£(2,272)m	£(5,666)m	3.68	
Target (100%)	£227m	£(1,972)m	£(5,466)m	3.74	
Maximum (175%)	£427m	£(1,672)m	£(5,266)m	3.81	
2021 performance pre discretion	£439m	£(1,442)m	£(5,081)m	3.73	
2021 performance post discretion *	£295m	£(1,666)m	£(5,333)m	3.73	
% of target	126%	175%	150%	92%	144%
% of reduced maximum	86%	100%	72%	52%	83%

\* The underlying numbers were adjusted to exclude ITP Aero, Other businesses, FX and exceptional items.

The Committee applied discretion to adjust the formulaic outturn for a number of items which they felt were not reflective of underlying business performance, including removing the cash benefit of concession slippages, adjusting for the foreign exchange impact of asset and liability revaluations, removing the benefit of a US pension credit and excluding the unbudgeted benefit from government support schemes. As a result of these adjustments, the overall Group outturn is 144% of target, 83% of the reduced maximum.

Definitions used for performance measures:

**Profit** – adjusted underlying operating profit before tax for 2021.

**Cash** – free cash flow which is cash flow before acquisitions and disposals, shareholder payments and foreign exchange.

**Operating cost** – Group operating costs (which exclude direct procurement of parts and components and depreciation).

**People** – measured through our annual Gallup12 survey. 76% of employees completed the survey and we achieved a Group score of 3.73. This showed a strong year-on-year improvement despite the very challenging environment for our people and significant restructuring activity.

### Individual performance

Subject to achievement of a minimum financial threshold, the Executive Directors have 20% of their bonus based on achievement of their personal objectives. The financial threshold for 2021 was to ensure that Group operating costs did not exceed the base level. Personal performance objectives are set at the beginning of the year and are aligned with the Group's internal strategic priorities.

For Executive Directors, these have included:

- deliver on commitments made to shareholders:
  - break even cash during the second half of 2021;
  - completion of £2bn of divestments in 2022; and
  - reduction of £1.3bn of operating costs by the end of 2022;
- deliver a significant restructuring programme in Civil Aerospace;
- determine the corporate portfolio and asset allocation including the strategy for Rolls-Royce Electrical and Rolls-Royce SMR;
- develop the roadmap for sustainability;
- provide increased clarity to internal and external stakeholders on risks and opportunities; and
- strengthen and refresh Senior Leadership.

The Committee assesses performance against the objectives. The overall assessed percentage is based on the Committee's judgement and may include other factors and achievements in the year. The following provides a summary of the key achievements in the year.

Both Executive Directors have delivered on the commitments that were made in order to secure the funding for the Group in 2020. All of these commitments were challenging requiring bold and decisive action:

- The restructuring programme launched in 2020 was largely completed, exceeding the £1.3bn run-rate savings target 12 months ahead of schedule.
- Excellent progress was made against the commitment to raise around £2bn of proceeds from disposals, with four agreements announced including three that have already completed.

Warren set out a technology pathway to net zero including commitments to ensuring our new products will be compatible with net zero operation by 2030, and all our products compatible by 2050.

- Significant milestones were achieved in Rolls-Royce Electrical including pre-orders announced for a key urban air mobility customer and a new platform partner.
- Rolls-Royce SMR was fully established with UK Government funding and external capital and is now progressing through the regulatory process for approvals.

Since joining in May, Panos had an immediate and positive impact on the Finance function and established clear near-term priorities including simplifying our external reporting and delivering growth and sustainable value.

### 2021 Rolls-Royce incentive plan performance outturn

	Group performance (% of maximum)	Individual performance (% of maximum)	Total incentive (% of maximum)	Total incentive (% of salary)
Warren East	83	68.6	79.7	306.9
Panos Kakoullis *	83	68.6	53.1	176.4

\* Panos Kakoullis' incentive award was pro-rated from date of appointment

The maximum incentive was reduced from 200% to 175% of target.

All of the incentive outturn was delivered in deferred shares - 40% deferred for three years and 60% for four years.

#### d) Long-term incentives (audited)

Conditional share awards were made prior to 2021 to Executive Directors under the LTIP to reward the execution and development of the business strategy over a three-year performance period. The conditional shares are then subject to a further two-year holding period.

### 2019 LTIP awards

The following sets out details in respect of the March 2019 LTIP award for which the final year of performance was the 2021 financial year. The performance conditions were assessed to the end of 2021 and were not met, meaning the award will lapse in March 2022.

	Weighting	Threshold (20% vesting)	Mid (50% vesting)	Maximum (100% vesting)	Performance achieved	Vesting as a % of maximum
CPS <sup>1</sup>	60%	112p	150p	187p	(72)p	0%
EPS <sup>2</sup>	20%	81p	95p	108p	(60)p	0%
Relative TSR v FTSE 100 constituents	10%	Median		Upper quartile	Below median	0%
Relative TSR v constituents of the S&P Global Industrials index	10%	Median		Upper quartile	Below median	0%
						Total vesting of 0%

#### e) Pension entitlement

Executive Directors are offered membership of a defined contribution plan. A cash allowance may be payable in lieu of pension contributions. From 1 January 2021, all Executive Directors are offered a maximum employer contribution of 12% of salary into the defined contribution pension plan (or cash allowance of equivalent value). This aligns to the average rate for the UK workforce.

### Other (audited)

#### Payments to past directors

An agreement was put in place between the Company and Colin Smith in 2017 for Colin to represent the Company in an ambassadorial capacity. The agreement was for up to 21.5 days for the latter part of 2017, 35 days for 2018 and 2019 and up to 20 days for 2020 and 2021. This agreement has not been renewed for 2022. Total payments of £210,180 have been made under this agreement, of which £16,800 was paid in 2021.

Jasmin Staiblin stepped down as a Non-Executive Director from the Board on 13 May 2021. She was appointed chair of the supervisory board of Rolls-Royce Power Systems AG on 11 June 2021. Payments of £109,300 have been made to Jasmin in 2021 in relation to this appointment.

### Payments for loss of office

Stephen Daintith left the Group on 19 March 2021, following his resignation. No further payments were made to him after his leave date and all unvested deferred shares and LTIP awards lapsed, other than those in a holding period.

### Implementation of remuneration policy for 2022

Base salary	Base salaries are: Warren East – £967,088; Panos Kakoullis – £697,000. 30% of Warren East's salary and 20% of Panos Kakoullis' salary is deferred into shares for two years.
Benefits	There will be no change to our approach to benefits in 2022, which includes car allowance, financial planning assistance, insurances and other benefits.
Pensions	The pension cash allowance for Warren East and Panos Kakoullis is 12% of salary, in line with the rate applied to the wider UK workforce.
Rolls-Royce incentive plan	For 2021, the Rolls-Royce incentive plan has been implemented in place of the previous bonus and LTIPs in operation over the last policy period. Any awards will be made based on 80% Group performance and 20% individual performance.

For 2021, the Group measures and weightings: profit before tax (37.5%); free cash flow (37.5%); cost base reduction (15%); and people (10%). Where targets are set with a one-year performance period, these are considered to be commercially sensitive and will be disclosed following the end of the performance period. The 2022 and 2023 awards include longer term multi-year performance metrics as illustrated below. Performance against targets and the details and context for the assessment of performance will be disclosed at the end of the relevant performance period. The Committee can disclose the following:

#### 2022

Metrics	Weighting	Targets
Annual targets (60%)		
Cash	20%	Performance targets will be disclosed following the end of the performance period
Profit	20%	
Operating cost	10%	
People	10%	
Long-term targets (40%)		
Cumulative cash (two-year) *	20%	£(1,215)m
Net Debt *	20%	£(1,490)m

#### 2023

Metrics	Weighting	Targets
<b>Annual targets (50%)</b>		
To be confirmed in 2023		
<b>Long-term targets (50%)</b>		
Cumulative cash (three-year) *	20%	Target £(483)m
Relative TSR (50% versus the FTSE 100 constituents and 50% versus the S&P global industrials index constituents)	25%	Median triggers threshold vesting and upper quartile maximum
Sustainability	5%	An average of the individual business targets which are based in the main in product compatibility with sustainable fuels

\* The targets were set in early 2021 based on the business forecasts at that time.

The Committee may make appropriate adjustments and use judgement in assessing performance outcomes. It retains its overriding ability to use discretion to adjust any formulaic outcome to ensure that the final outcome is fair and justified in the context of the overall performance of the business.

The incentive plan opportunities and time horizons will operate as per the remuneration policy.

### Other information Executive Directors' share interests (audited)

The Directors and their connected persons hold the following interests in the ordinary shares of the Company:

	Ordinary shares		Unconditional deferred shares (salary deferral)	Conditional shares not subject to performance conditions (deferred share bonus)	Conditional shares subject to performance conditions (LTIP)	Options over shares subject to savings contract (ShareSave)
	31 December 2021	24 February 2022	31 December 2021	31 December 2021	31 December 2021	31 December 2021
Warren East	1,003,771	1,003,771	137,969	210,230	2,610,003	–
Panos Kakoullis	–	–	65,900	–	–	–

### Executive Directors' interests in vested and unvested share awards (audited)

Warren East	31 December 2020	Granted during the year	Vested awards	Lapsed awards	31 December 2021	Market price at date of award (p)	Date of grant	Vesting date/lapse date	Market price at vesting (p)
Salary deferral <sup>1</sup>	–	137,969	–	–	137,969	–	–	–	–
LTIP 2017	435,426	–	–	–	435,426	820.17	05/05/17	05/05/22	–
LTIP 2018 <sup>2</sup>	801,536	–	–	801,536	–	857.47	08/03/18	10/03/21	–
LTIP 2019	770,793	–	–	–	770,793	891.67	15/03/19	15/03/24	–
LTIP 2020 <sup>3</sup>	1,403,784	–	–	–	1,403,784	489.60	16/03/20	16/03/25	–
Total	3,411,539	137,969	–	801,536	2,747,972				
Deferred share bonus 2018 <sup>4</sup>	132,216	1,988	134,204	–	–	891.67	15/03/19	15/03/21	–
Deferred share bonus 2019	210,230	–	–	–	210,230	489.60	16/03/20	16/03/22	–
Total	342,446	1,988	134,204	–	210,230				
ShareSave 2015 five-year (options) <sup>5</sup>	3,683	–	–	3,683	–	211.68	12/10/15	01/02/21	–

Panos Kakoullis	31 December 2020	Granted during the year	Vested awards	Lapsed awards	31 December 2021	Market price at date of award (p)	Date of grant	Vesting date/lapse date	Market price at vesting (p)
Salary deferral <sup>1</sup>	–	65,900	–	–	65,900	–	–	–	–

Stephen Daintith <sup>6</sup>	31 December 2020	Granted during the period	Vested awards	Lapsed awards	19 March 2021	Market price at date of award (p)	Date of grant	Vesting date/lapse date	Market price at vesting (p)
LTIP 2017	288,087	–	–	–	288,087	820.17	05/05/17	05/05/22	–
LTIP 2018 <sup>2</sup>	519,915	–	–	519,915	–	857.47	08/03/18	10/03/21	–
LTIP 2019	499,976	–	–	499,976	–	891.67	15/03/19	19/03/21	–
LTIP 2020 <sup>3</sup>	910,562	–	–	910,562	–	489.60	16/03/20	19/03/21	–
Total	2,218,540	–	–	1,930,453	288,087				
Deferred share bonus 2018 <sup>3</sup>	79,409	–	79,409	–	–	891.67	15/03/19	15/03/21	–
Deferred share bonus 2019 <sup>5</sup>	126,266	–	–	126,266	–	489.60	16/03/20	19/03/21	–
Total	205,675	–	79,409	126,266	–				
ShareSave 2017 three-year (options) <sup>5</sup>	2,695	–	–	2,695	–	260.28	13/10/17	01/02/21	–
ShareSave 2019 three-year (options)	850	–	–	850	–	232.17	16/10/19	19/03/21	–

<sup>1</sup> 30% of Warren East's salary and 20% of Panos Kakoullis' salary is deferred into shares for two years. The shares are deferred and will vest on a monthly basis with no further performance conditions.

<sup>2</sup> LTIP awards are subject to performance adjustment at the end of a three year performance period. The 2018 LTIP award lapsed as the performance conditions were not met.

<sup>3</sup> The performance conditions for the 2020 LTIP award can be found on page 94 of the 2020 Annual Report.

<sup>4</sup> The 2018 deferred share bonus award attracted a dividend equivalent award of shares upon vesting. The shares were granted on 31 March 2021 and vested immediately.

<sup>5</sup> The ShareSave options that matured in 2021 were cancelled and the savings were returned because the option price was higher than the prevailing market price.

<sup>6</sup> Stephen Daintith's 2017 LTIP award will vest in May 2022. All other outstanding awards and options lapsed on 19 March 2021 when he left the Company.



### Shareholding requirement (audited)

Executive Directors are required to work towards holding beneficially-owned shares equivalent in value to a percentage of their salary by retaining at least one half of after-tax shares released from the incentive plans until this requirement is met. For the Chief Executive this requirement is 250% of salary and for other Executive Directors this requirement is 200% of salary. The current shareholdings, as a percentage of salary, for Warren East and Panos Kakoullis are 255% and 15% respectively.\*

In addition, Executive Directors are required to retain the lower of their shareholding requirement and their actual shareholding at the date of leaving for one year after leaving and 50% of this level for a second year, subject to the terms of the policy. The requirement was assessed when Stephen Daintith left the Company and it was determined that no post-cessation shareholding was required by him under the terms of the policy, other than LTIP shares in the holding period. The Committee is comfortable that the appropriate safeguards are in place to manage the policy for leavers.

\* The percentage of the requirement was calculated by reference to the average share price, over the three months to 31 December 2021 and salary as at the date of the last grant on 31 March 2021. LTIP awards subject to the two-year holding period following the performance period are included in this calculation. LTIP awards that have not been subject to the performance adjustment and ShareSave options are not included in this calculation.

### Pay across the organisation

This section of the report enables our remuneration arrangements to be seen in context by providing:

- a comparison of the percentage change in our Directors' remuneration with the change in our UK employees average remuneration over two years;
- a ten-year history of our Chief Executive's remuneration;
- our TSR performance over the same period;
- an indication of the ratio between our Chief Executive's remuneration and the remuneration of employees; and
- a year-on-year comparison of the total amount spent on employment costs across the Group and shareholder payments.

### Percentage change in Directors' remuneration

The following table compares the percentage change in each of the Director's salary/fees, benefits, and incentive to the average percentage change in salary, benefits, and incentive for all UK employees for the past two years.

#### Change in remuneration

	2020–2021			2019–2020		
	Salary/fees %	Benefits %	Incentive plan <sup>1</sup> %	Salary/fees %	Benefits %	Incentive plan <sup>1</sup> %
Anita Frew <sup>2</sup>	n/a	n/a	n/a	n/a	n/a	n/a
Warren East	5.96	–	∞ <sup>4</sup>	(7.5)	(8.03)	(100)
Panos Kakoullis <sup>2</sup>	n/a	n/a	n/a	n/a	n/a	n/a
Paul Adams <sup>2</sup>	n/a	n/a	n/a	n/a	n/a	n/a
George Culmer <sup>2</sup>	n/a	n/a	n/a	n/a	n/a	n/a
Irene Dorner	8.25	–	n/a	14.26	(92.41)	n/a
Beverly Goulet	7.69	–	n/a	(7.5)	(72.27)	n/a
Lee Hsien Yang	7.69	(14.29)	n/a	(7.5)	(82.56)	n/a
Nick Luff <sup>3</sup>	38.46	–	n/a	(7.5)	–	n/a
Mike Manley <sup>2</sup>	n/a	n/a	n/a	n/a	n/a	n/a
Wendy Mars <sup>2</sup>	n/a	n/a	n/a	n/a	n/a	n/a
Sir Kevin Smith	8.25	∞ <sup>4</sup>	n/a	(7.5)	(79.32)	n/a
Dame Angela Strank <sup>2</sup>	n/a	n/a	n/a	n/a	n/a	n/a
UK employees average <sup>5,6</sup>	1.03	(9.13)	1,435	1.96	2.23	(89.94)

<sup>1</sup> The comparator for 2020 and 2019 is the award made under the former annual bonus scheme. The maximum outturn reduced from 200% of target to 175% in 2021.

<sup>2</sup> Appointed during 2021 or 2020 and therefore unable to provide percentage change for a full year's remuneration.

<sup>3</sup> Nick Luff was appointed Chair of the Audit Committee on 13 May 2021 and received an increase in fees.

<sup>4</sup> Unable to show percentage change as the increase was from zero.

<sup>5</sup> UK employees were chosen as a comparator group in order to avoid the impact of exchange rate movements over the year. UK employees including apprentices, graduates and interns, make up 45% of the total employee population and are employed by Rolls-Royce plc or its relevant subsidiaries. Rolls-Royce Holdings plc has no employees.

<sup>6</sup> There was an incentive award for only a very small population in 2020, hence the significant increase in 2021.

### Chief Executive pay

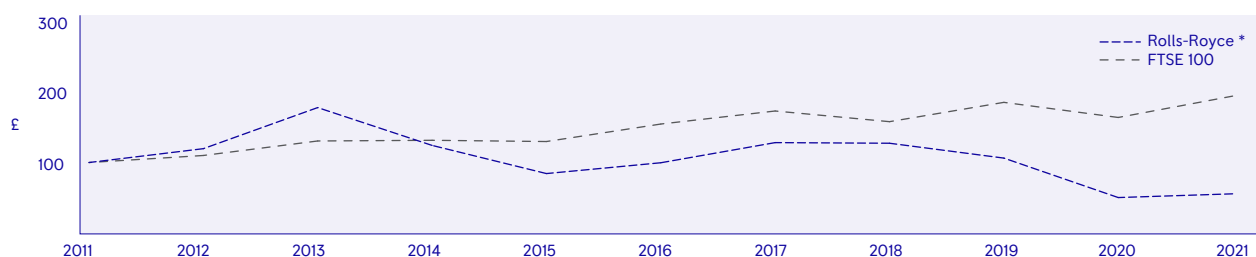
Year	Chief Executive	Single figure of total remuneration £000	Incentive plan <sup>1</sup> as a % of maximum	LTIP as a % of maximum
2021	Warren East	3,950	79.7	–
2020	Warren East	1,110	–	–
2019	Warren East	2,528	52	53
2018	Warren East	4,075	60	100
2017	Warren East	2,331	68	–
2016	Warren East	2,089	55	–
2015 <sup>2</sup>	Warren East	543	–	–
	John Rishton	754	–	–
2014	John Rishton	2,596	–	45
2013	John Rishton	6,228	55	100
2012	John Rishton	4,577	85	–

<sup>1</sup> The comparator for 2012 to 2020 is the award made under the former annual bonus plan. The maximum reduced from 200% of target to 175% in 2021.

<sup>2</sup> John Rishton retired on 2 July 2015 and Warren East was appointed as Chief Executive on 3 July 2015.

### TSR performance

The Company's TSR performance over the previous ten years compared to a broad equity market index is shown in the graph below. The FTSE 100 has been chosen as the comparator because it contains a broad range of other UK-listed companies. The graph shows the growth in value of a hypothetical £100 holding in the Company's ordinary shares over ten years, relative to the FTSE 100 index.



\* Prior years have been adjusted for the rights issue.

### Chief Executive pay ratio

The Committee is mindful of the relationship between the remuneration of the Chief Executive and the wider employee population. This is the fourth year that we have published our Chief Executive pay ratio and we have continued to use method A, as we believe that this is the most accurate and robust methodology. We have used the full time equivalent total remuneration of all UK employees at 31 December 2021.

Year	Method	25th percentile	Median	75th percentile
2021	Option A	88.1	76.1	63.1
2020	Option A	26:1	22:1	19:1
2019	Option A	66:1	56:1	48:1
2018	Option A	92:1	77:1	66:1

For 2021, the salary and total remuneration for the three employees identified at the 25th, median and 75th percentiles are as follows:

Year	25th percentile	Median	75th percentile
Salary	£37.4k	£45.0k	£54.1k
Total Remuneration	£44.8k	£52.0k	£63.1k

The pay ratio has increased this year as a result of the deferred share award to Warren East for 2021.

## REMUNERATION COMMITTEE REPORT

The Chief Executive has a larger proportion of his total pay based on variable elements linked to performance than other UK employees. As outlined on page 93, the Committee has considered the wider workforce context in terms of alignment of total reward for the Executive Directors. The majority of employees participate in an incentive plan, with a good degree of alignment of financial measures with the Executive Directors' incentive plan. We also encourage all eligible employees to join our ShareSave plan. For our most recent launch in 2021 approximately 50% of our global population joined the plan, sharing in approximately 57 million shares and stock appreciation rights.

The Remuneration Committee believes that the median pay ratio for 2021 is consistent with the pay and progression policies for the Group's UK employees as a whole.

### Relative importance of spend on pay

The following chart sets out the percentage change in payments to shareholders and overall expenditure on pay across the Group.

PAYMENT TO SHAREHOLDERS (£M) *		GROUP EMPLOYMENT COSTS (£M)	
(Consolidated cash flow statement)		(Note 8, employee information – see page 147)	
2021	0 (0%)	2021	3,206 (2.7%)
2020	0 (-100%)	2020	3,123 (-21.4%)

\* Value of C Shares issued during the year.

### Gender pay reporting

The Company is committed to creating a diverse and inclusive place to work where our people can be themselves and be at their best. More information about this can be found on pages 46 to 50. We published our UK gender pay gap in March 2021, which showed:

MEDIAN GENDER PAY GAP ACROSS ALL ROLLS-ROYCE EMPLOYEES IN THE UK		MEAN GENDER PAY GAP ACROSS ALL ROLLS-ROYCE EMPLOYEES IN THE UK	
2021	4.8%	2021	3.2%
2020	5%	2020	3%

Overall women represented 17% of our workforce at 5 April 2021. However, we continue to make progress with recruiting more women into senior positions. See pages 46 to 50 for further information on what we are doing to address diversity across the organisation.

### Contractual arrangements

Each Executive Director has a service agreement that sets out the contract between that Executive Director and the Company.

### Executive Directors' service contracts

	Date of contract	Notice period from Company	Notice period from individual
Warren East	21 April 2015	12 months	6 months
Panos Kakoullis	15 February 2021	12 months	12 months

### Payments received for serving on external boards

Executive Directors retain payments received from serving on the boards of external companies, the details of which are given below:

	Directorships held	Payments received and retained (£000)
Warren East	ASML Holding NV	76
Stephen Daintith *	3i Group plc	14

\* Stephen Daintith's payments from 3i Group plc during the period he was our Chief Financial Officer.

**Non-Executive Directors' remuneration**

Single figure of remuneration (audited)

	Fees <sup>1</sup> (£000)		Benefits (£000)		Total remuneration (£000)	
	2021	2020	2021	2020	2021	2020
<b>Chair and Non-Executive Directors</b>						
Anita Frew <sup>2</sup>	140	–	3	–	143	–
Paul Adams <sup>3</sup>	56	–	3	–	59	–
George Culmer <sup>4</sup>	70	65	2	1	72	66
Irene Dorner	105	97	–	–	105	97
Beverly Goulet	70	65	3	3	73	68
Lee Hsien Yang	70	65	6	7	76	72
Nick Luff <sup>5</sup>	90	65	–	–	90	65
Mike Manley <sup>6</sup>	35	–	–	–	35	–
Wendy Mars <sup>7</sup>	5	–	–	–	5	–
Sir Kevin Smith	105	97	2	–	107	97
Dame Angela Strank <sup>8</sup>	83	42	1	–	84	42
Sir Ian Davis <sup>9</sup>	319	393	–	–	319	393
Lewis Booth <sup>10</sup>	31	88	–	11	31	99
Sir Frank Chapman <sup>10</sup>	33	83	–	1	33	84
Jasmin Staiblin <sup>10</sup>	26	65	1	4	27	69
<b>Total</b>	<b>1,238</b>	<b>1,125</b>	<b>21</b>	<b>27</b>	<b>1,259</b>	<b>1,152</b>

<sup>1</sup> In line with Senior Leadership, a 10% reduction in fees and a further 10% deferral was applied from April to December 2020, with the deferral being repaid in December 2020.

<sup>2</sup> Anita Frew was appointed as a Non-Executive Director on 1 July 2021 and as Chair on 1 October 2021.

<sup>3</sup> Paul Adams was appointed on 11 March 2021.

<sup>4</sup> George Culmer was appointed on 2 January 2020.

<sup>5</sup> Nick Luff was appointed Chair of the Audit Committee on 13 May 2021.

<sup>6</sup> Mike Manley was appointed on 1 July 2021.

<sup>7</sup> Wendy Mars was appointed on 8 December 2021.

<sup>8</sup> Dame Angela Strank was appointed on 1 May 2020 and as Chair of the Safety, Ethics & Sustainability Committee on 13 May 2021.

<sup>9</sup> Sir Ian Davis stepped down on 30 September 2021.

<sup>10</sup> Lewis Booth, Sir Frank Chapman and Jasmin Staiblin stepped down on 13 May 2021.

**Non-Executive Directors' fees**

The Chair's fee is reviewed by the Board as a whole on the recommendation of the Committee. The review of the other Non-Executive Directors' base fees is reserved to the Executive Directors, who consider recommendations from the Chair. No individual may be involved in setting his or her own fee. The Chair and the Non-Executive Directors are not eligible to participate in any of the Group's share schemes, incentive arrangements or pension schemes. A facility is in place which enables Non-Executive Directors (who reside in a permitted dealing territory) to use some or all of their fees, after the appropriate statutory deductions, to make market purchases of shares in the Company on a monthly basis. Sir Ian Davis and Lee Hsien Yang used this facility.

**Non-Executive Directors' fees**

	2021 £000	2020 £000
Chair *	490	425
Other Non-Executive Directors base fee	70	70
Chair of the Audit Committee	25	25
Chair of the Remuneration Committee	20	20
Chair of the Safety, Ethics & Sustainability Committee	20	20
Chair of the Science & Technology Committee	20	20
Senior Independent Director	15	15
Employee Champion	15	15

\* Increase approved following exercise by MWM Consulting, benchmarking comparable industrial businesses in the FTSE 100, both by revenue and market capitalisation.

### Non-Executive Directors' benefits (audited)

The benefits for Non-Executive Directors relate predominantly to travel, hotel and subsistence incurred in attending meetings. For Non-Executive Directors based outside the UK, the Company may also pay towards tax advice and the cost of making tax filings.

### Non-Executive Directors' share interests (audited)

The Non-Executive Directors and their connected persons hold the following interests in the ordinary shares of the Company:

Chair and Non-Executive Directors	31 December 2021	24 February 2022
Anita Frew	200,000	200,000
Paul Adams *	10,000	10,000
George Culmer	37,960	37,960
Irene Dorner	54,578	54,578
Beverly Goulet	40,972	40,972
Lee Hsien Yang	62,795	63,645
Nick Luff	43,333	43,333
Mike Manley	–	–
Wendy Mars	–	–
Sir Kevin Smith	116,540	116,540
Dame Angela Strank	13,780	13,780

\* Share interests held as American Depositary Receipts.

### Non-Executive Directors' letters of appointment

Our Non-Executive Directors serve three, three-year terms (nine years in total).

Chair and Non-Executive Directors	Original appointment date	Current letter of appointment end date
Anita Frew	1 July 2021	30 June 2024
Paul Adams	11 March 2021	10 March 2024
George Culmer	2 January 2020	1 January 2023
Irene Dorner	27 July 2015	26 July 2024
Beverly Goulet	3 July 2017	2 July 2023
Lee Hsien Yang	1 January 2014	31 December 2022
Nick Luff	3 May 2018	2 May 2024
Mike Manley	1 July 2021	30 June 2024
Wendy Mars	8 December 2021	7 December 2024
Sir Kevin Smith	1 November 2015	31 October 2022
Dame Angela Strank	1 May 2020	30 April 2023

### Shareholder voting

The remuneration policy and report were last approved by shareholders at our 2021 AGM held on 13 May 2021. Details of voting are shown in the table below.

	For	% For	Against	% Against	Withheld*
Approval of the Directors' remuneration policy	5,662,106,630	97.04	1,724,946,155	2.96	14,886,550
Approval of the Directors' remuneration report	5,780,964,445	99.06	54,904,622	0.94	13,624,930

\* Withheld votes are not counted towards the total percentage of votes cast.

### Statutory requirements

The Committee's composition, responsibilities and operation comply with the principles of good governance, as set out in the Code, the Listing Rules (of the Financial Conduct Authority) and the Companies Act 2006. The Directors' remuneration report has been prepared on the basis prescribed in the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.



# SAFETY, ETHICS & SUSTAINABILITY

## Activities and overview of 2021

### Product safety

- we reviewed the Rolls-Royce safety management system in light of investigations, reports, and learnings from the Boeing 737 MAX accidents;
- we conducted a thorough assessment of the process of resolving raised safety concerns;
- we carried out detailed reviews of in-service product safety issues;
- we scrutinised the management of product safety and the associated risks on a business-by-business basis; and
- we analysed product safety policies, processes, performance metrics, and training and scrutinised improvements.

### HSE

- we regularly reviewed the HSE performance and balanced scorecard, total reportable injury rate and safety index performance;
- we monitored HSE programmes including safety cases, electrical safety, contractor management and employee wellbeing;
- we discussed COVID-19 HSE impacts and mitigations; and
- the Committee shared learning from major and high-potential incidents, and regularly tracked progress against HSE and environmental targets and risks.

### Ethics and compliance

- we discussed regulatory and prosecutorial matters;
- the Committee assessed and reported to the Board on concerns raised through the Ethics Line and reviewed detailed reports of significant issues;
- we assessed the Group's export control risk; and
- we monitored progress of the Group's ethics and compliance programme.

### Sustainability

- the Committee reviewed the decarbonisation strategy and net zero road map ahead of the publication of the net zero report in June 2021;
- we discussed progress against 2030 sustainability targets;
- we monitored the preparation and impact of our participation at COP26; and
- we assessed climate change risks and the Group's approach to TCFD requirements.

### Principal risks

- we undertook a review of the product safety, people safety, compliance and climate change principal risks.

## Role of the Committee

The Committee monitors the operation of the Group's product safety governance frameworks, scrutinising the development and implementation of changes in process and practice, as well as supporting performance delivery. We review the Group's HSE performance and culture, support improvement programmes, monitor incidents and investigate remedial actions. The Committee monitors the Group's compliance with legislative, regulatory and ethical standards whilst supporting management to embed a strong ethics and compliance culture and behaviours. We review, challenge, and support the Group's sustainability strategy, track progress towards sustainability targets and review the environmental impacts of products and operations. We continuously review the product safety, people safety, compliance and climate change principal risks.

The Committee's responsibilities are outlined in its terms of reference, available at [rolls-royce.com](https://www.rolls-royce.com). We review these annually and refer them to the Board for approval. During 2021, we updated our terms of reference to include the responsibility to review progress and delivery against agreed climate change metrics, targets and objectives whilst managing climate change as a principal risk in the delivery of the Group's strategy.

During the year, given the increased focus on sustainability, we increased the membership requirement from a minimum of two to three independent Non-Executive Directors. We also increased the number of meetings from three to four to ensure we had sufficient time to address our climate-related agenda.

## Membership of the Committee

In addition to myself, members of the Committee during 2021 were Paul Adams, Sir Frank Chapman, George Culmer, Irene Dorner and Lee Hsien Yang. Paul joined the Committee in March and George stepped down at the same time. Sir Frank stepped down in May, at which point I succeeded Sir Frank as the Committee Chair. All Committee members are independent Non-Executive Directors. Our biographies are on pages 71 to 73 and our meeting attendance is on page 76. In addition to the members of the Committee, the Chair, Chief Executive, General Counsel, Chief People Officer and Chief Technology Officer attend most meetings, along with business leadership as befits the agenda. The Committee is supported by the Chief Governance Officer.

## Areas of focus for 2022

Alongside monitoring the management of product safety, HSE, ethics and compliance and sustainability, we oversee the development of the Group's climate transition plan to net zero. We will also oversee progress as we look to achieve science-based targets initiative (SBTi) accreditation and mature our TCFD reporting.

### Dame Angela Strank

Chair of the Safety, Ethics & Sustainability Committee

# SCIENCE & TECHNOLOGY

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## Activities and overview of 2021

### Technology strategy

- we reviewed the strategic direction of the Group's research technology and development activities, with consideration to their environmental impact amongst other matters, and to ensure investment is appropriately allocated;
- the key technology programmes including SMRs, UltraFan and hybrid-electric regional aviation were kept under review throughout the year;
- we received deep dives on several areas of the business, including Rolls-Royce Electrical to ensure appropriate focus on product strategy;
- we assisted the Board in its oversight of major R&D investment and provided assurance on its competitiveness and the adequacy of technology investment, with thorough consideration of the environmental impact of both new products and technology;
- we received updates from the businesses including Rolls-Royce Electrical and Power Systems on the roadmap to net zero;
- we reviewed digital, electrical and hybrid-electric technologies and developments in alternative fuels including hydrogen and sustainable aviation fuels;
- we visited the Bristol, UK site to review various programmes and key technologies; and
- we maintained a strong focus on low carbon technologies which underpin the Group's sustainability strategy and leverage our advanced manufacturing and nuclear power design expertise.

### Cross-sector technology

We continued to provide oversight of the effectiveness of key engineering and technology processes and operations, including the delivery of major product development and technology programmes.

### Technology capabilities and skills

We discussed the processes for ensuring there was effective resourcing and development of required technological capability and skills. We received updates from Group engineering to ensure the Group continued to drive efficiency through the organisation and to better understand how productivity drivers are used to drive efficiency throughout the organisation.

### Technology trends and risks

We provided assurance on the identification and management of key technological risks and reviewed and considered other topics or risks appropriate to the overall remit of the Committee as delegated by the Board.

### Principal risk

We continued to monitor disruptive technologies as part of the competitive environment principal risk.

## Role of the Committee

In 2021, the Committee continued to provide dedicated focus to the research and technology part of the Group's R&D investment. This enables the Group to conceive, design and deliver world-class technology that meets our customers' current and future needs. We provide directional input and oversight of the Group's scientific and technological strategy, processes and related investments. In doing this, we place importance on ensuring active dialogue with engineering and technology leaders and experts, inviting relevant employees to Committee meetings, meeting with employees during site visits and developing future leaders through the Board apprentice programme.

The Committee's responsibilities are outlined in its terms of reference, available at [rolls-royce.com](https://www.rolls-royce.com). We review these annually and refer them to the Board for approval. During 2021, we updated our terms of reference to include our responsibility for reviewing progress and delivery against agreed climate change metrics, targets and objectives whilst managing climate change as a principal risk in the delivery of the Group's strategy.

## Membership of the Committee

In addition to myself, the members of the Committee during 2021 were Dame Angela Strank, Paul Adams and Mike Manley. Paul and Mike joined the Committee in March and July respectively. Sir Frank Chapman and Jasmin Staiblin were members of the Committee until they stepped down from the Board in May 2021. All members are independent Non-Executive Directors. Our biographies are on pages 71 to 73 and our meeting attendance is on page 76. In addition to the members of the Committee, the Chair, Chief Executive, Chief Financial Officer, any of the Non-Executive Directors and chairman of the Rolls-Royce science advisory council may attend one or more meetings at my invitation. The Committee is supported by the Chief Technology Officer and the corporate governance manager.

## Areas of focus for 2022

During 2022 we will continue to oversee the Group's key technology programmes, in particular, providing support to technologies emerging from the net zero strategy. This will enable us to focus on reviewing the development of the Group's engineering capability in line with our future technology needs. We will also continue to visit our global sites to enable us to engage with our people and to assist with our review of key programmes.

I would like to pay tribute to the work of our technology community and the flexibility, resilience and commitment of our people during these challenging times. I thank them on behalf of the Board for their significant contribution which has enabled us to meet major technology milestones in the year that will be critical to the future of our Company.

**Sir Kevin Smith**

Chair of the Science & Technology Committee

# RESPONSIBILITY STATEMENTS

## Statement of Directors' responsibilities in respect of the Financial Statements

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group Financial Statements in accordance with UK-adopted international accounting standards and the Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework, and applicable law).

Under company law, Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed for the Group Financial Statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company Financial Statements, subject to any material departures disclosed and explained in the Financial Statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge:

- the Group Financial Statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Company Financial Statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

By order of the Board  
**Pamela Coles**  
 Chief Governance Officer  
 24 February 2022